The official flagship Journal of ICMA Pakistan

MANAGEMENT ACCOUNTANT

Special Message

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Mohammedmian Soomro
Federal Minister for Privatization

Exclusive Interview

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President, FPCCI

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SPECIAL FEATURE
Federal Budget and Finance Act 2019

Informal Economy:
Challenges for Documentation

Volume : 28.3
May-Jun 2019

ICMA Pakistan
Estd. 1951
Institute of Cost and Management Accountants of Pakistan

From the Holy Quran

In the name of ALLAH, the Most Magnificent, the Most Merciful

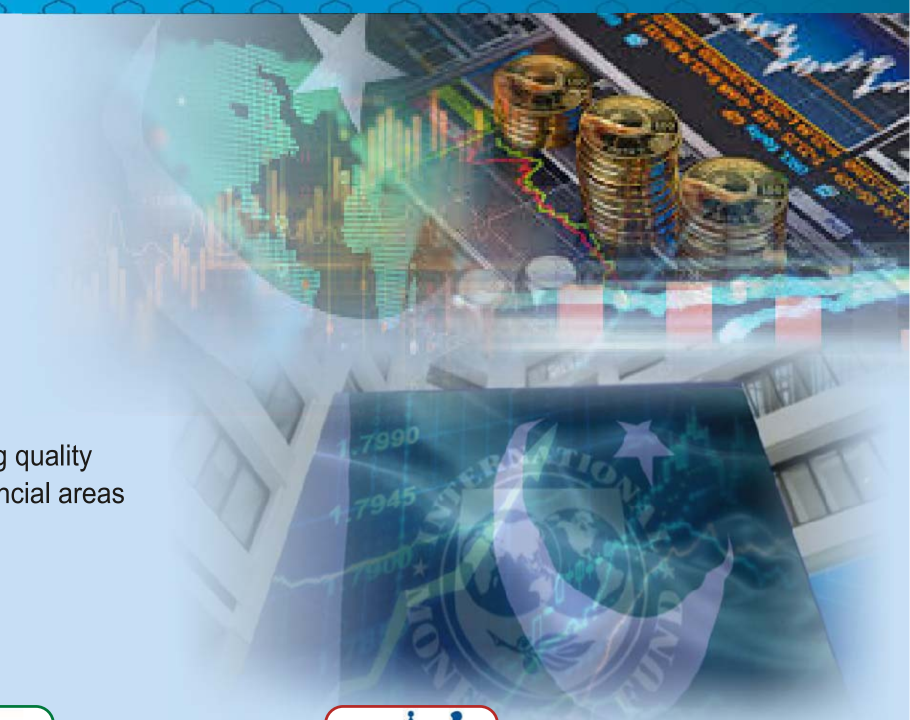
Alif , Lam , Mim , Ra. 1 These are the verses of the Book. What has been sent down to you from your Lord is true, but most of the people do not believe. (1) Allah is the One who raised the heavens without pillars that you can see them. Then He positioned Himself on the Throne and subjugated the sun and the moon, each one of them running to an appointed time. He manages all matters, elaborating the signs, so that you may be sure of meeting your Lord. (2) He is the One who spread out the earth and made mountains and rivers on it, and created in it the pairs of two from all the fruits. He makes the night cover the day. Surely, in that there are signs for a people who think. (3) And in the earth there are tracts of land neighboring each other, and gardens of grapes, and farms and date palms, some having twin trunks and some having a single one. (Although) all of them are irrigated with the same water, We make some of them better than others in taste. Surely, in that there are signs for a people who understand. (4)

(Surah 13 Al-Rad, verses 1 to 4

Translation : Mufti Taqi Usmani
http://www.quranexplorer.com

Respecting the sanctity of the Qur'anic verses is the duty of all of us

قرآنی آیات کا احترام ہم سب پر فرض ہے۔



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To develop Business Leaders through imparting quality education and training in financial and non-financial areas to bring value-addition in the economy

Core Values


Competence


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MANAGEMENT ACCOUNTANT

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Our Next Issues

Jul-Aug 2019

Business Startups and Professionals

Sep-Oct 2019

Trade, Tariffs and Taxation

Nov-Dec 2019

Foreign Aid: Blessing or Curse

Research & Publications Committee would welcome articles on the above-mentioned themes for Journal's forthcoming issues.

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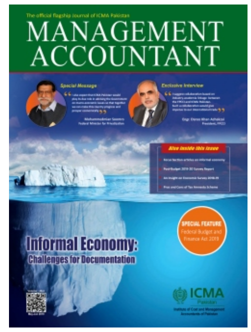


President's *Message*

I am pleased to issue this message for the May-June 2019 issue of Management Accountant Journal, which I am told, will be touching upon a crucial topic of major concern to the global economy, especially for Pakistan, which is 'Informal economy' and the challenges it poses for documentation.

I appreciate the Research and Publications Committee for taking the timely move to publish this issue of Journal in the backdrop of recent announcement of Federal Budget 2019-20 which also covers some bold measures to document the national economy. For instance, a novel concept of 'Business Registration Scheme' has been introduced in the budget whereby all persons deriving business income, even if below the tax threshold, shall be required to register with the FBR through NADRA's e-Sahulat Centers without any requirement to file tax returns. I think this new initiative would pave the way for creating a useful database for the Government to detect new taxpayers and promote documentation in future.

The then Minister of State for Revenue, Mr. Hammad Azhar, in his budget speech, pointed out that 'documentation of economy' shall be the main thrust in upcoming years for which the Government intends to make extensive use of data analytics of the data bases existing with government organizations. Similarly, the Chairman FBR, Mr. Shabbar Zaidi, in one of his public addresses, stated that his first priority will be to document the economy to bring undeclared and non-declared downstream sectors into the tax net. This level of commitment demonstrated at high level is also in line with the external pressures our country is experiencing at the moment for documentation. The IMF which has recently approved US$ 6 billion bailout package has pinpointed a large informal economy of Pakistan as one of the hindrances towards economic growth, along with other key factors including weak tax administration; difficult business environment and inefficient and loss-making state-owned enterprises. The Government is also under immense pressure from the Financial Action Task Force (FATF) to document the economy.

By analyzing the estimates of ILO and SBP, the size of the informal sector in Pakistan comes to something around 36% to 50% of GDP which is extremely high. This means that if the informal sector is formalized, it could enhance the GDP by almost US$ 100 to US$ 150 billion. I think more initiatives are required on the part of the Government to tackle the menace of informality by formulating a holistic nation-wide policy to push up the revenues.

At the Institute's front, let me share that ICMA Pakistan organized a national post-budget conference on 14th June 2019 at Islamabad where Mr. Shabbar Zaidi, Chairman FBR graced as Chief Guest whereas Ms. Shandana Gulzar Khan, Parliamentary Secretary at Ministry of Commerce, Government of Pakistan was the Chief Guest at the second session. I may mention here that prior to budget announcement, I had a meeting with the Chairman FBR on 3rd June 2019 at his office wherein I took up the matter of restoring 'Cost and Management Accountants' in Section 134A of Income Tax Ordinance in Finance Bill 2019. Alhamdulillah, this proposal has been accepted by the Government and incorporated in the Finance Act 2019. I also had a very useful meeting with Dr. Ishrat Husain, Advisor to PM on Institutional Reforms and Austerity. Let me also share that it was honour for me to have been included as a member on the FBR Anomaly Committee (Technical) constituted by Mr. Shabbar Zaidi to identify and remove technical and legal anomalies in the Finance Bill. ICMA Pakistan submitted its proposals on the anomalies and most of them were considered and accepted by the said Committee. Now that the Finance Act 2019 has been notified, we will continue our interactions with regulators on policy making, including exploring new avenues for our members.

Zia ul Mustafa, FCMA
President, ICMA Pakistan

from the Desk of Chief Editor

The growing undocumented or informal economy is one of the most serious challenges facing the national economy. The present Government seems quite cognizant of this challenge and committed to broaden the tax base and document the unregistered segments of business and society. In the recent Budget 2019-20, the Government has proposed a number of measures to document the economy, including the crucial decision of imposing condition of getting CNIC on buying of more than Rs. 50,000/- on which there is much resistance from the traders community. Anyways, the Institute supports the Government in its drive for the documentation of economy and it thinks that until and unless the rich and elite who are not paying their due share of taxes, are not brought into the tax net, this exercise will prove to be futile.

Supplementing the efforts of the Government for documentation of economy, the Research and Publications Committee decided to bring out the May-June 2019 issue of Management Accountant on the theme of 'Informal Economy: Challenges for Documentation'. This issue contains some useful write-ups on informal sector and I am sure that the readers, especially the policy makers would derive benefit from the ideas and proposals made by the authors.

I would like to express deepest gratitude, on behalf of ICMA Pakistan, to hon'ble Mr. Mohammedmian Soomro, Federal Minister for Privatization for sending his special message for publication in this issue. We welcome his comments about the possible role of our Institute in advising the Government on macro-economic issues.

I also wish to thank Engr. Daroo Khan Achakzai, President, The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) for giving his exclusive interview in which he has shared the perspective of the apex body of trade and industry on the documentation of economy. We endorse his viewpoint on having collaboration between our two organizations.

The Focus section contains useful articles on the informal sector by the contributing writers; three of them are fellow members of the Institute viz. Syed Shamim Ahmed; Mr. Qaiser Mufti and Mr. Rauf Ali Jan. A focus article has been contributed by Mr. Aadil Nakhoda from Institute of Business Administration (IBA), Karachi who is also a regular author in leading newspapers. We appreciate his contribution and hope that it would add to the knowledge of our readers. The Research and Publications (R&P) Department has also prepared a research paper which provides useful facts and statistics on the status of informal employment in the SAARC countries.

This issue also covers a 'Special Feature' segment on 'Federal Budget and Finance Bill 2019' which includes a 'Survey Report' on Federal Budget 2019-20; Infographics on Economic Survey 2018-19 and Budget 2019-20 and a paper on 'Comparison of Finance Act 2019 vs. Finance Bill 2019 with respect to income tax provisions; all contributed by our Research and Publications Department. A unique initiative taken this time by our R&P Department was that it approached the Presidents and Chairmen of leading Chambers of Commerce as well as Industry Associations, respectively to seek their views on the budget and its impact on the business and economy. There is a good response to this initiative and we have received observations from few Chambers and Associations which are part of this issue in the segment of Special Feature.

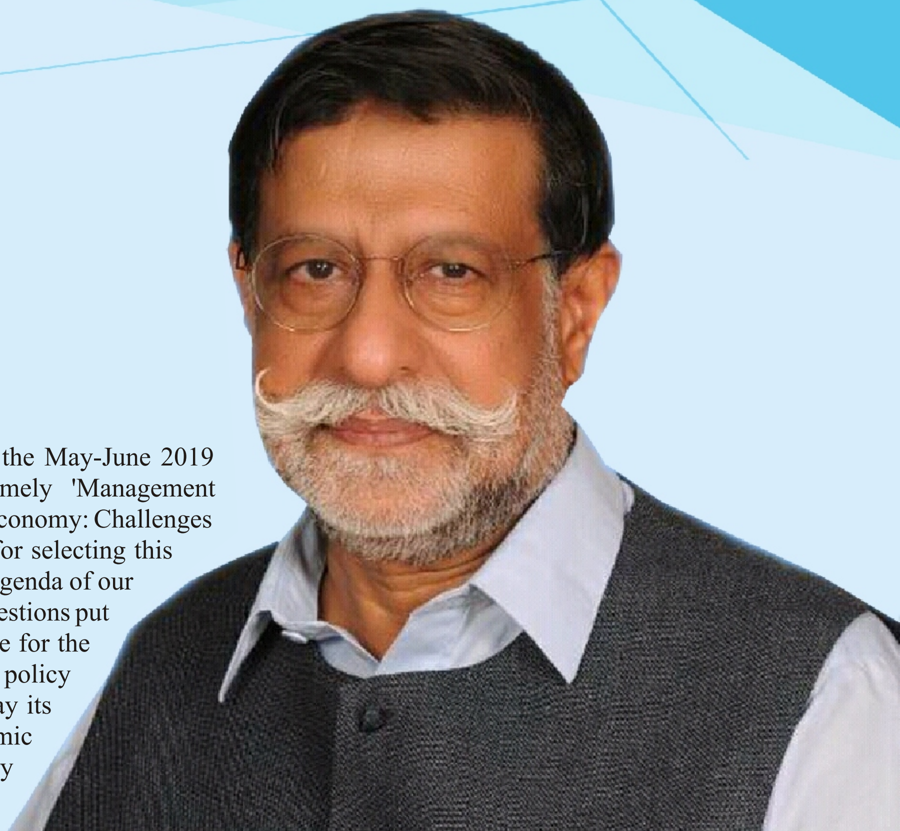
I hope that the members, students, government officials and especially the business and industry would gain useful knowledge and insight from this issue. Please do share your comments on email **rp@icmap.com.pk**

Muhammad Yasin, FCMA
Chairman, Research and Publications Committee

Special

Message

Mohammedmian Soomro
Federal Minister/Chairman



I am pleased to issue a message for publication in the May-June 2019 edition of ICMA Pakistan's official Journal namely 'Management Accountant' which will be on the theme of 'Informal Economy: Challenges for Documentation'. I congratulate ICMA Pakistan for selecting this important topic which is also one of the top priority agenda of our Government. I hope that the pragmatic ideas and suggestions put forward by the experts and professionals in this issue for the documentation of economy would merit attention of policy makers. I also expect that ICMA Pakistan would play its due role in advising the Government on macro-economic issues so that together we can make this country progress and prosper economically.

Mohammedmian Soomro
Federal Minister for Privatization

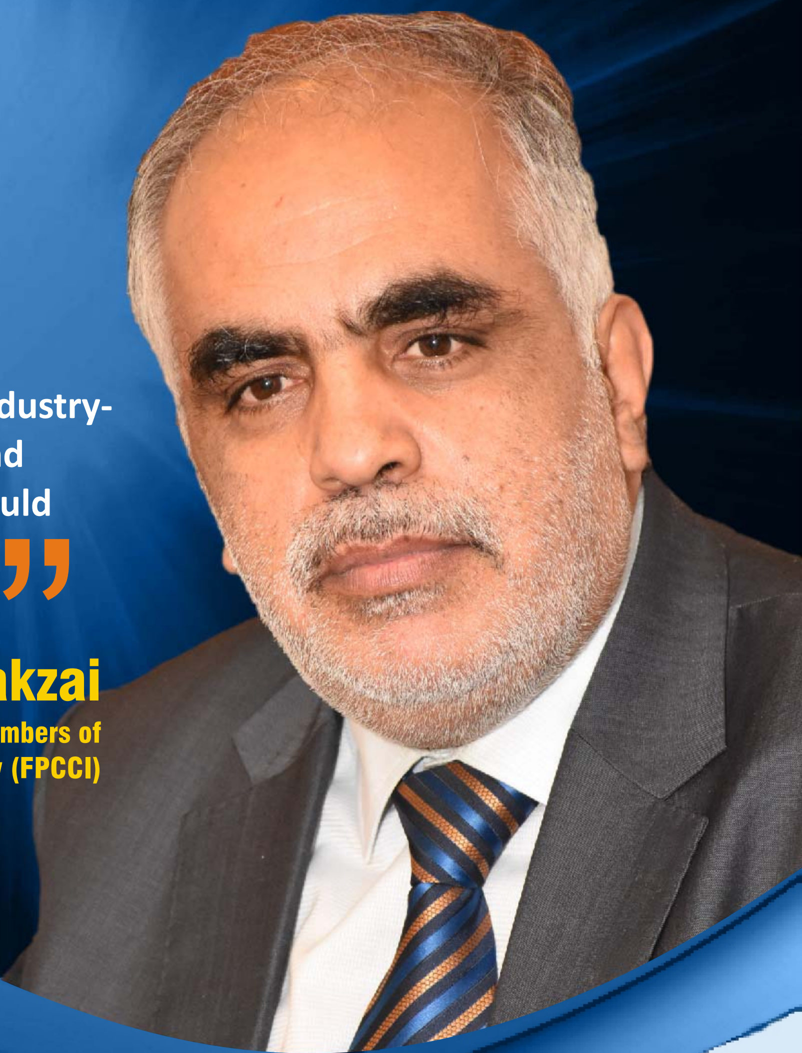
"I also expect that ICMA Pakistan would play its due role in advising the Government on macro-economic issues so that together we can make this country progress and prosper economically"

Due to tenacity and perseverance of the government, our country Maa Shaa Allah has been pulled back to a stabilizing position and Alhamdulillah we are now gradually heading towards economic progress and prosperity. We only need to mobilize our resources to improve governance and the infrastructure and launch projects of national importance for the economic progress of the country as well as a better future for our coming generation. The China-Pakistan Economic Corridor (CPEC) is one of such projects that would be a game changer for Pakistan. It would definitely open up new avenues of socio-economic prosperity in Pakistan.

The government is also committed to pursuing privatization as a core element of its economic reform agenda. The privatization program aims to reduce Pakistan's fiscal burden, alleviate poverty, improve service delivery to the people of Pakistan, facilitate more competition in the economy, and strengthen Pakistan's capital markets. The success of privatization program, however, is contingent upon the support of all the stakeholders, which also includes professional institutions like ICMA Pakistan.

Exclusive
Interview

> I suggest collaboration based on industry-academia linkage between the FPCCI and ICMA Pakistan. Such a collaboration would give impetus to our International trade



Engr. Daroo Khan Achakzai

President, The Federation of Pakistan Chambers of Commerce and Industry (FPCCI)

ICMA Pakistan: What is FPCCI's viewpoint on the current state of economic affairs?

EDKA: Pakistan is undoubtedly passing through hard times in economic terms. The macro-economic indicators are mostly showing an unsatisfactory trend. Reserves are very low that is putting pressure on our current account. The gap between imports and exports has widened; inflation is showing a rising trend; FDI is not increasing and SBP is following a tight monitory policy that is also curtailing the opportunities for industrial expansion. However, the government is struggling and moving in a positive direction to re-track the economy. Financial support from friendly countries; currency swap and defer payment in crude oil import would definitely improve our foreign exchange reserves.

ICMA Pakistan: What is the role and contribution of FPCCI in economic policy-making?

EDKA: The FPCCI, since its inception, has remained the part of the policy-making process in Pakistan. The FPCCI prepares recommendations through the consultative process and seeks feedback from its affiliated Trade Bodies. On the other side, FPCCI Standing Committees which are formed on every important sector

> A few years back, FPCCI suggested amnesty scheme to convert the unrecorded economy to documented economy; however, the mechanism and measures we suggested were not adopted so the scheme was not successful

> "We are losing our own domestic markets because cheap products from FTA countries are being flooded into our markets"

give their inputs. When the Government prepares the Federal budget; trade policy; industrial policy and investment policy and also initiates important steps to enhance the socio-economic prosperity, the FPCCI always gives its feedback, recommendations and policy proposals and remains the part of these policies formulations.

ICMA Pakistan: Our exports are not picking up despite various incentives by the Government. What are the main reasons?

EDKA: Analytical examination shows that there are two aspects of Pakistan's exports; first is the production of the exportable surplus and the second is the marketing of export items. The industry is facing various problems to produce exportable goods, for example, the environment is not much business friendly and the cost of doing business is high. Comparatively, our industry is less incentivized against our competitors. The textile sector which shares 55% export baskets, suffers from 11% taxes and duties on import of raw material, etc and on the other hand, we are unable to get benefits from our favorable markets. We have Free Trade Agreements (FTA) with China and Sri Lanka and Preferential Trade Agreements (PTA) with Iran, Indonesia, Mauritius and Malaysia but unfortunately, the balance of trade with these countries is not in our favor. We are losing our own domestic markets because cheap products from FTA countries are being flooded into our markets. The Government announced various incentives in the Strategic Trade Policy Framework (STPF) and export packages; but they are not implemented in true spirit. It is expected that zero-rated regime for the export-orientated industry will be phased out that will also have an impact on our exports.

ICMA Pakistan: There is a large informal sector which is unregulated? Do you think it needs to be documented?

EDKA: The undocumented economy or informal sector is detrimental to the economic growth of any country. It also reflects the failure of Government policies as the actual statistical size of the economy may not be calculated to formulate policies. I have heard that the size of the undocumented economy is nearly equal to the documented economy. A few years back, FPCCI suggested amnesty scheme to convert the unrecorded economy to documented economy; however, the mechanism and measures we suggested were not adopted so the scheme was not successful.

ICMA Pakistan: What new measures have been suggested in FPCCI's pre-budget proposals to enhance tax revenues?

EDKA: Keeping its past practice, the FPCCI this year also submitted its proposals to the Government and suggested that the FBR should find new avenues of tax collections for broadening of the tax base. Reduction in taxes; simplification in the return filing and attitude of the FBR can attract new taxpayers. We have also suggested that the sectors where reasonable income is generated should participate in tax.

> "We always advocate discouraging non-filers. We have also suggested the Government to introduce such policies that increase tax filing"

> "One of the important factors is that our exports are being produced without having the knowledge of cost benefit analysis. The whole process could be supported if management accountants help the National Tariff Commission, business and Industry and of course the concerned ministries to levy duties and taxes"

ICMA Pakistan: What is FPCCI's standpoint on taxing Filers and Non-Filers? Do you agree with stringent policy against non-filers??

EDKA: Actually, FPCCI is a body where all members are taxpayers/tax filers. We always advocate discouraging non-filers. We have also suggested the Government to introduce such policies that increase tax filing. With nearly 1.9 million taxpayers we don't show responsible and mature nation.

ICMA Pakistan: How do you foresee the economic growth in Pakistan in the next two years, in light of World Bank's forecast?

EDKA: Economic growth is very important for Pakistan while unfortunately, we have moved on a lower sidetrack again. GDP growth this year has declined to 3.3 percent. The environment and economic condition of Pakistan are showing that the GDP growth shall remain below 5 percent in the next few years unless some extraordinary measures are taken or support from certain sectors is received.

ICMA Pakistan: What are the key factors that increase cost of doing business in Pakistan? How FPCCI is tackling it?

EDKA: Pakistan is not performing well in various global indexes like the ease of doing business and trade index, competitiveness etc. The main reasons of the high cost of doing business in Pakistan are expensive utility; import of raw material; law and order situation in some areas; weak investment inflow for up gradation of plant and machinery; low labor productivity and unfavorable business environment.

ICMA Pakistan: Management Accountants, having expertise in cost control techniques, can be best advisors to business and industry to guide them on reducing cost of doing business. What are your views?

EDKA: Cost of doing business is an important factor that determines the competitiveness of the product without calculating cost at every stage of value addition which is essentially required to determine the market price. It is a very complex calculation that may not be found out unless one has a complete background and knowledge of cost-benefit analysis. One of the important factors is that our exports are being produced without having the knowledge of cost benefit analysis. The whole process could be supported if management accountants help the National Tariff Commission, business and Industry and of course the concerned ministries to levy duties and taxes.

ICMA Pakistan: In what areas FPCCI and ICMA Pakistan can collaborate to help government in the economic policy making??

EDKA: The FPCCI is an apex body whose responsibility is to promote Pakistan's trade; facilitate the business and Industry whereas ICMA Pakistan's role is very critical in the promotion of business. The members of FPCCI i.e. Trade and Industry, need the information on the cost of exports in a particular market while FPCCI engages in exploring new potential markets. Both national organisations are very critical for enhancing Pakistan's foreign trade. Therefore, I suggest collaboration based on industry-academia linkage between the FPCCI and ICMA Pakistan. Such a collaboration would give impetus to our International trade.

The Editorial Board thanks Engr. Daroo Khan Achakzai, President, the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) for giving his exclusive interview for Management Accountant Journal.

The Spread of the Informal Sector in Pakistan

The Editorial Board thanks Dr. Aadil Nakhoda for sharing his article exclusively for publication in this issue of Management Accountant Journal


Dr. Aadil Nakhoda

The growing contribution of the informal sector in Pakistan has imposed several challenges for the government as it struggles to collect tax revenue and increase the number of documented enterprises and individuals. The following analysis on the size of the informal sector highlights the importance of documenting it so that individuals and enterprises are brought into the tax net.

According to the International Labor Organization (ILO), informal sector enterprises are unincorporated enterprises that are neither legal entities separate from their owners nor do they record transactions using complete set of accounts such as balance sheets. Additionally, they are not registered under national legislation. The ILO also adds that enterprises reporting market transactions by selling goods or services satisfying one of the following three criteria is considered as part of the informal sector. The criteria are: (i) the number of workers employed below a certain threshold (five or fewer workers in several cases), (ii) enterprise is itself unregistered or (iii) workers employed in the enterprise are not registered with social security institutions or with agencies that require declaration of labor income in order to pay income tax.

The ILO further sets criteria for informal employment, defining it either as own-account workers whose production is consumed by their own households, or as contributing family workers who are unlikely to have any contract or agreements or as workers who have informal jobs in the formal sector. The last set of workers include those who do not have formal contracts with their employers and are not subject to national legislations on employment, employment benefits, income taxation and social protection. In essence, such workers are unlikely to be accounted for as employed in national statistics. According to ILO's estimates, approximately 90% of all micro and small enterprises in the world belong to the informal sector. It further estimates that more than 2 billion people or 61 percent of the world's employed population belong to the informal sector.

According to ILO's Report titled "Women and men in the informal economy: A statistical picture"[1], published in 2018, more than 80% of all the economic units, which is the sum of employers and own-account workers, globally are defined as informal. Further more than 80 percent of the employment by entrepreneurs in emerging and developing economies is accounted as informal. As expected more than 90 percent of the employees with no education in the emerging and developing economies are employed in the informal sector. This figure drops to 32 percent for employees with tertiary education. In the developed world, approximately half of the employees with no education are employed in the informal sector, while 16 percent of the employees with tertiary education are employed in the informal sector.

According to ILO's estimates, approximately 90% of all micro and small enterprises in the world belong to the informal sector. It further estimates that more than 2 billion people or 61 percent of the world's employed population belong to the informal sector

Although, the share of the informal sector in terms of total employment is larger in poorer countries, the share of the informal employment among the non-poor and the share of the informal employment among poor is positively correlated across countries. That is,

[1] https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_626831.pdf

countries reporting a large proportion of the poor employed in the informal sector will also have a large proportion of the non-poor employed in it. Therefore, the informal sector is likely to involve not only the poor but also the non-poor in several developing countries.

However, different definitions exist for defining 'poor' in developing economies and in developed economies. Those below the absolute poverty line of $3.10 at purchasing power parity are defined as poor in the former, while those earning less than 60% of median household income in the latter are defined as poor. Different strata of the population are employed in the informal sector as the employment in the informal sector is not restricted to the poorer population but also involves the non-poor population. Further, although informality is likely to account for a much larger percentage in agricultural employment in emerging and developing economies as almost all the agricultural workers are employed informally, a significant proportion of employment in industry and service sectors are also likely to be informal. Therefore, governments in developing countries face challenges regarding the size of the informal sector. They require holistic policies encompassing all sectors of the economy in order to not only increase government revenue but also bring such enterprises into the tax net.

According to the aforementioned ILO's report, 82.4% of total employment in Pakistan is in the informal sector. Almost 41.3% of those in the informal sector are own-account workers. More than 77% are working in the informal enterprises out of 82.4% of total employment in the informal sector. Although, 46.6% of the men employed in the informal sector are own-account workers, 59.5% of the women employed in the informal sector are contributing family workers. Approximately all of the workers in the agricultural sector are informal workers, 78.7% of those employed in industry are informal workers and 65.3% of those employed in services are informal workers. The agricultural sector contributes to approximately one-half of all employment in the informal sector. This jumps to more than three-quarters when considering the statistics for women employed in the informal sector. Therefore, similar to other developing economies, informal employment in the agricultural sector constitutes a large proportion of employment in the informal sector, particularly for women. It is likely that women are mostly working as contributing family members, primarily in the agricultural sector. Even though a large proportion of workers are contributing family members, the policies involving a holistic approach across all economic sectors to improve the documentation of the informal sector is extremely crucial in Pakistan as it will create possibilities to increase fiscal revenue.

The IMF reports that the size of the informal sector is likely to be between 30% and 50% of the GDP in its analysis of the economy of Pakistan published in June 2017. It further states that the presence of an informal economy is likely to reduce economic growth and labor productivity as it not only depresses the creation of high quality jobs but also reduce worker incentives as employees may not be able to avail social security benefits. Employees in the informal sector are likely to report limited scope of upward mobility. The report points to the lack of size of pension schemes as well as to the high-levels of self-employment in the country. A large regulatory burden often leads to a large informal sector, which is not only reflected in firm surveys on business activities and business perceptions but also in official trade statistics. High taxes and custom duties may instead trigger tax avoidance. The following analysis will consider data available from easily accessible databases on trade statistics, namely the International Trade Center's Trademap.org, and on business environment, namely World Bank's Enterprise Surveys.

The IMF reports that the size of the informal sector is likely to be between 30% and 50% of the GDP in its analysis of the economy of Pakistan published in June 2017. It further states that the presence of an informal economy is likely to reduce economic growth and labor productivity

Often importers are involved not only in under-invoicing of imports to reduce the amount of custom duties they would otherwise incur but also mis-declare their products at the port of entry to take advantage of special concessions on certain duty exempted products. Informal trade is unreported in official statistics and can be undertaken by small-scale and large-scale enterprises. Pakistan loses significant value in terms of customs revenue due to undocumented trade at the border. Informal trade between Pakistan and its neighbors is common. Informal trade between Pakistan and Afghanistan takes place under the guise of Afghanistan Pakistan Transit Trade Agreement. Traders availing the facility may not necessarily participate in actual cross-border transactions between Pakistan and Afghanistan. Further, informal trade between Pakistan and India is also common as several Indian products are imported via a third country, such as the UAE. Finally, Pakistan and China have reported a spike in informal trading activities as the imports from Pakistan are under-invoiced. The imports from Pakistan reported by Pakistani agencies are lower than the exports originating from China reported by Chinese authorities. However, a recent data sharing agreement between the two countries is likely to reduce the discrepancies as it may clamp down on misreporting and mis-declaration by the importers.

Differences between direct data and mirror data or partner country data, as extracted from International Trade Center's Trademap.org, can help analyze the size of the undocumented economy in Pakistan. The discrepancies are likely if one trading party avails incentives to mis-declare the actual values, in both directions, increasing the size of the undocumented economy. Importers may under-invoice the value of the imports in order to pay less duties, while exporters may over-invoice the value of export sales to obtain greater subsidies on exports or tax concessions. However, it is important to mention that as imports are reported on cost insurance and freight (CIF) basis, while exports are reported on free on board (FOB), about 10% to 20% of the discrepancies may exist due to the methods of calculation.

The following analysis shows the size of undocumented trade likely to exist between Pakistan and its neighboring countries. Pakistan imported $15.4 billion and $14.5 billion from China in 2017 and 2018 respectively. However, the mirror data which reports exports from China to Pakistan, reads $18.3 billion and $17 billion respectively, a difference of more than $2.5 billion each year. Therefore, Pakistani importers may have under-invoiced a significant amount of goods, worth in billions of dollars. Again, a similar discrepancy exists when considering the data on trade with Afghanistan. Pakistan exported $1.9

billion and $1.7 billion to Afghanistan in 2014 and 2015 respectively. However, the mirror data reveals that only $1.3 billion were imported into Afghanistan from Pakistan in both years. Similarly, there is a discrepancy of more than $430 million between mirror and direct data when considering imports from India into Pakistan in 2018. According to State Bank of Pakistan's report titled *'Implications of Liberalizing Trade and Investment with India'*[2] published in 2006, informal trade between Pakistan and India may have varied between $250 million and $2 billion, with around $1 billion routed through third countries. With formal trade between the two countries being restricted today, undocumented trade may have increased. A more recent study by researchers at the Indian Council for Research on International Economic Relations (ICRIER)[3] published in 2016 estimates that Pakistan may have imported approximately $4 billion through informal channels from India in 2012-13. Although, there is likely to be some mis-invoicing in the partner countries as well, the analysis does suggest that the size of the undocumented economy as a result of international trading activities is significant. This undocumented trade, even after considering normal discrepancies in statistics due to calculation errors, results in not only loss in customs revenue but imports of substandard products that can be dangerous and unsafe for consumers in Pakistan.

The efforts to document the informal economy will pay several dividends as the government struggles to balance its fiscal budget. Providing incentives and facilitating business registration can help formalize several undocumented business

A simple analysis in the difference between formal and informal firms can be undertaken using the data on Pakistani firms available from World Bank Enterprise Surveys. Although, the survey cannot be considered representative, it can provide some useful information on the characteristics of the firms present in the informal sector. We remove firms from our sample which are unlikely to report at least somewhat truthful opinions and perceptions and as well as remove firms which may have reported inaccurate and imprecise figures as believed by the enumerators. Approximately 3.8% of all firms participating in the 2013 survey wave are removed from the sample. 799 firms out of 872 firms participating in the 2013 survey wave respond to the question on whether they are formally registered. Firms may have been registered at their establishment or at any point of time after establishment. There is no distinction made on the basis of the time frame of their registration. The data was collected between May 2013 and May 2015. It is also important to mention that there is no distinction on whether an enterprise is operated from fixed visible premises such as an office or a factory.

Approximately 85% of the firms that responded are formally registered. Formally registered firms had an average of 86 employees at the time of their establishment, while non-registered firms had 40 employees. Formally registered firms also incur higher labor costs than their non-registered counterparts. Formally registered firms were more likely to directly export as well as import their inputs. Formally registered firms are more likely to report tax inspections as well as perceive more severe obstacles in the form of tax rates and tax administration to their business operations. Further, formally registered firms are not only likely to compete more against informal firms but the severity of the obstacles due to competition from informal firms is likely to be greater.

In essence, the above analysis confirms that firms which are formally registered are more likely to not only be larger in terms of number of employees and wage costs incurred but also more likely to participate in international trading activities. Such firms are also likely to report more interaction with tax administration and be constrained by the obstacles it presents. Therefore, registration of firms not only provides more opportunities to businesses to grow and perform better but also exposes them to challenges that would otherwise not be faced by non-registered firms.

One of the major global rankings used to assess the business conditions and environment in a country is the World Banks' Ease of Doing Business. The current government pays significant attention to this ranking as it seeks to reduce regulatory burden on the businesses and enlarge the tax net. Although, there has been much fanfare on the recent improvement in rankings for Pakistan as it jumped 11 places, the business environment in Pakistan is still relatively poor. Pakistan ranks at 136 in terms of the Ease of Doing Business. This places it within the bottom half of the South Asian group, above Afghanistan, Bangladesh and Maldives. It has ranked comparatively poorly across all subgroups except protecting minority interest and resolving insolvency. Pakistan undertook a few reforms in 2018 and 2019 such as enhancing the online registration system, introducing a single application replacing several forms to register a business and replacing the need to obtain digital signatures with personal identification numbers at the time of starting a business. Further, there have been significant improvements in the transparency during land registration process and business registration process as communication between the registry and tax authorities were enhanced. In addition, it has introduced electronic document submission to improve the customs platform and facilities involved in trading across borders.

In essence, the efforts to document the informal economy will pay several dividends as the government struggles to balance its fiscal budget. Providing incentives and facilitating business registration can help formalize several undocumented business. Digitization of business transactions is definitely an important step as it not only increases transparency but makes transactions smoother and efficient. Other steps involve lowering the costs of businesses, which should not be limited to the domestic market but also to foreign inputs as government loses revenue through illegal cross-border trading. Finally, it is imperative that constraints to business operations for formal businesses are not increased as government seeks higher fiscal revenue. The revenue collected from different economic sectors will be enhanced with the documentation of the economy.

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[2] http://www.sbp.org.pk/publications/pak-india-trade/

[3] http://icrier.org/pdf/Data_Sheet_India_Pakistan_2016.pdf

Informal Economy - Brave the Challenges

Syed Shamim Ahmed, FCMA

Life is neither black nor white. It is mostly grey. In other words, our society is a combination of evils and virtues; people neither behave like angels nor satin but a mixture of both. It stands true for individuals, families, production and trade houses or even for a government/nation as a whole. Informal Economy is the outcome of this universal philosophy. There are people who tend to work within the laid down procedures, rules, regulations, and laws but again there are other people who tend to avoid all this for reasons.

The informal economy is the part of any economic system which is not documented; not registered with concerned authorities; have no required permits or licenses, and above all do not pay taxes. It also has different names like Black Economy, Shadow Economy, Parallel Economy. This may include business houses, trading & manufacturing and employment where workers are not protected by the State. The informal economy bears the following characteristics:

- Do not form part of the taxation system thus do not pay taxes
- Mainly financial transactions are through cash avoiding banking channels
- Not a part of reported GDP although defacto contributing to the domestic production.
- Carrying economic activities undocumented, unregistered, without any permit or license.
- These economic activities do not provide any assistance or contribution to national planning, policy making, and development schemes or even in budgeting.
- At times involve in illegal activities like smuggling, money laundering, narcotics, child labour, low wages, etc.

Such informal economies prevail throughout the world. However, quantum varies. Our portion of the informal economy is estimated at 30% - 40% of GDP as per various studies. Some claim it stands up to 75%. However, its true figures are not possible to reach for obvious reasons. With GDP at US$ 300 billion, the 40% informal economy is estimated at US$120 billion and taking tax to GDP ratio at 14% the tax lost is around US$ 16.8 Billion per year. Hell of money.

Why this Malevolent

Generally, the informal economy is a product of:

- Heavy taxation with harassment and complications
- No apparent benefits of taxation.
- Multiple rigid regulations, duplicating procedural formalities and red-tapism
- Delay coupled with corruption within the government machinery
- Mistrust on government.
- Support of government functionaries to such activities
- Poverty, lack of education and lack of information
- Difficulty in doing business
- Unnecessary demands of various documents
- Requirements of various standards to do business
- Some level of education required for employment, health and safety standards, quality control, etc.
- Heavy fines and punishments for certain lapses

Difficult to Harness

Power corrupts and more power corrupts more. Power is derived by the regulators from the heavy and rigid regulations. Hard regulations provide more power. Simply means more corruption. It is said that out of rupees 100 of tax recoverable, only 38% is received by the tax department and 62% is shared by the tax collectors, tax consultants and taxpayers. Commonly it is called corruption but actually, it is the intensity and rigidity of such regulations. Therefore, it is not the informal sector which is difficult to tame but in fact, it is the regulator who is hostile and hurdle in bringing the informal trade on the track.

On the other hand, what about the tax recovery position even in the 'Formal economy'. With a population of 220 million, we have hardly around 1.4 million tax filers, out of which 50% are salaried filers. Some file zero tax. 300 filers pay 80% of the total tax receipts. Taking benefit out of the loopholes in statutes, regulations and laws through different interpretations, cases involving trillions are under litigations/ appeals, especially in power and communication sectors. Circular Debts of Rs 1.4 trillion are another such example. This area of the formal economy faces more challenges.

Blessing in Disguise

Let us also see the other side of the moon. We have a population of 220 million, 40% of which are below the poverty level. Literacy rate for over 10 years of age is 58% (without going into the definition of literacy). Per capita income is US$ 1600. Around 60% of the population is living in rural areas. With this level of society, how many can do business and how many can get employment under the formal economy of regulations. A majority of people who are illiterate for any job and those who have not enough capital to start a business after completing the regulated formalities, also have the right to earn bread and butter for their families. Only informal economy has the answer in view of the below-mentioned facts: -

- they provide jobs to illiterate people without asking conditions
- their cost of production is low due to avoidance of taxes, fees etc.
- business can start with low capital and in no time.
- serves as a nursery to start a small business and grow with the passage of time to become a part of formal setup later.
- they contribute to defacto GDP.
- they provide goods and services to people in far-flung areas, backward areas where the official sector has not yet reached and where the poverty level is high.

Meeting Challenges

There is no problem which has no solution; however, the solution requires the right direction with sincerity, commitment and resolve. Whenever we know something is bad or wrong this simply means that we know the problem. If we know the problem in 90% of the cases, we know the solution. Same is very true with the informal economy. We all know about it, we all know the causes and so we all know the solution but the main problem is not the informal economy by itself but people at the helm of affairs are the real problem. Easy to meet these challenges through some of the suggestions below:

- Taxes rather tax machinery is the main muddle. For the last 70 years, the tax collector has the authority to make all policies and systems of tax collection making it harder, difficult and complicated. It has been proved beyond doubt that the present ruthless and tyrannical system did not work. Why not make it simple according to the level of income of the taxpayer. Lower the income, lessen the tax formalities. For certain lowest income, they may not be required to: (1) disclose the source of income, (2) submit any bank statement and (3) subject to audit.
- Tax logic should be bringing more filers in the system with a low rate of tax. When one feels the pain to pay the tax he tends to avoid it. Higher the tax rate, higher the pain. Strange is that under the Amnesty scheme, the rate offered is around 1.5% to 5% to people who accumulated money and did not pay tax but, on another hand, a taxpayer has to pay up to 20% of his income. Only the rich should pay tax and not the middle class. Minimum taxable income should be around ten million with a tax rate of 2% going maximum upto 10%.
- Documentation, registration, permits/ licenses should be categorized according to the amount of capital involved e.g. up to a capital investment of 1 million there may only be the requirement of registration against a simple application giving the name, CNIC, Type of Business with the address. The registration should be allowed without asking any details specially the source of income. The requirement of income details may be gradually increased as an increase in capital. Any lengthy details and documents may be asked to form a capital investment of say 100 million rupees.
- Generally, anyone who wishes to start a certain type of business with a certain capital, he may not know what formalities he has to complete, where to register, what permit/license is necessary. Therefore, it is much needed that an announced department must be designated to guide such people.
- Corruption: The basic evil. To reduce corruption it is necessary that every concerned department must have declared SOP and announced printed details of documents required to be submitted along with the application for a certain business to start. It is also desirable that the time needed for the processing of applications be declared. This will streamline the procedure and reduce corruption.
- Doing no work is not considered bad or objectionable. Government functionaries keep sitting on files/cases for months without taking any action. People run from pillar to post but no one listens and their cases are not expedited. This is the main cause of corruption as file only moves when palms are greased or wheels put under the files. Therefore, it is needed that time frames for processing case/file be laid down for every government official.
- The requirements of labour laws, education level, security standard, quality control, safety standard etc. should depend on the size and type of business. Such requirements should be made severe and uncompromising as per the magnitude of the business.

Conclusion

Above are a few common sense measures which if implemented would definitely reduce the quantum of informal economy. It is not the fear of the government but writ of government which matters.

***About the Author:** The author is a senior Fellow member of the Institute.*

Challenges for Documentation

- Draft for Code of Corporate Governance

Basic guide to documentation in listed companies is "Code of Corporate Governance". The old code is proposed to be replaced by a new code. Draft of the new code has been circulated to elicit public opinion. What follows herein is a comment on the draft Code of Listed Companies Regulations-2019.

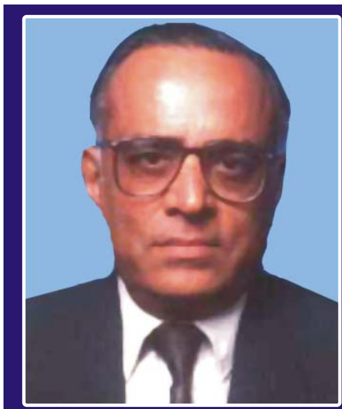
The number of companies of which one could be a director of is five in the present code. There is no restriction on the number of directorships in subsidiaries of listed companies. The draft Listed Companies (Code of Corporate Governance) Regulations - 2019 seeks to increase the number of listed companies in which one can be a director by two, as the number of listed companies in which one can be a director is proposed to be increased to seven.

"Provided that while calculating this limit, the directorship in the listed subsidiaries of a listed holding company shall be excluded", the fading code of corporate governance provides. This has to be viewed in the background of dropping the following provision relating to number of directors in the existing regulations.

> *"No person shall be elected or nominated or hold office as a director of a listed company including as an alternate director of more than five listed companies simultaneously."*

Thus according to the change suggested, limit on an individual to be a director would be seven companies as against five at present. The number of seven companies would include listed subsidiaries of the concerned parent company(ies). The new arrangement proposes to do away with the separate / independent classification of 'listed subsidiaries of companies' for the purpose. The listed subsidiaries of (listed) companies are proposed to be dealt with as independent companies, without peeping into their genes, being a subsidiary.

Down the line, availability of persons eligible for directorship of companies has tremendously increased. Pegged-up training avenues and availability of literature to guide the directors have substantially moved-up the number of persons to act as director of companies. Significant contribution to increase the availability of persons eligible to become directors and upping the capacity of directors has been of the judiciary supported literature and media, which carried judgments of superior courts and write-ups by law luminaries. These provided fresh looks, unfolding new dimensions as also retinues to amend the existing texts and lead to new pastures in law.



Qaisar Mufti, FCMA

For improved expertise to function as a director, to be reckoned are many organizations conducting courses on the company directors culture and training of directors. Thanks for adding to the number of trained may be due to:

- Institute of Chartered Accountants of Pakistan (ICAP),
- Institute of Cost & Management Accountants of Pakistan (ICMAP),
- Institute of Corporate Governance,
- Business Schools viz. IBA, LUMS, IoBM, ZABIST,
- Voluntary organizations holding seminars and conferences on corporate governance,

Need has arisen for clearing companies corridors to the increased number of incumbents available to serve as directors of companies. This has corresponded growth in complexities of business, callings widening of space for directors of companies to be, increasing the time required to be devoted to rigmaroles of companies on the boards of which they happen to be on. Accordingly, called for could be reduction in the number of directorships of companies which a director may have. One way of putting this statement is that with increased intensity of business problems and stiffening of corporate laws more time and higher level of expertise is required to be invested by the directors. This has increased the need for directors capacity to peep into and digest the corporate affairs. Consequent has been the requirement of greater time investing in affairs of companies by the directors. The increased availability of hands to act as directors and rise in expertise level required to dovetail the corporates calls for reduction in the number of companies one can be director of.

Doing away with the separate specie of directors holding directorship in listed subsidiaries of listed holding companies in the new code of corporate governance is a welcome proposal. Similarly, auguring well is the proposition of doing away of engagement of an independent consultant to recommend appropriate level of remunerations for consideration and approval of the board.

Comforting to note is also that no person shall be appointed as a Company Secretary unless he holds qualification specified under the relevant regulations. Traditionally, the qualification of a company secretary is holding membership of a professional Institute of Company Secretaries. Such a professional body exists in Pakistan under the name of Institute of Corporate Secretaries of Pakistan (ICSP). ICSP is registered as Guarantee Company with SECP, which has not been active for the last few years. SECP would do well to look into the case and revive ICSP, ideally shaping it under a legislation to be brought in line with the Institute of Chartered Accountants of Pakistan and the Institute of Cost & Management Accountants of Pakistan.

A company is required to post the element of its significant policies on its website, including but not limited communication and disclosure of policies of communication and disclosure, code of ethics, risk management policy, internal control and whistle blowing in addition to corporate social responsibility, sustainability, environmental and social governance policies. Redeeming on this account is insertion of the following in the draft:

> *“..... nothing in these regulations shall affect or deemed to effect any action taken, orders issued, relaxation granted unless withdrawn, fee paid or accrued, resolution passed, direction given under the repealed instruments shall, if in force at the effective date of these regulations and not inconsistent with provision of these regulations, shall continue to be in force and have effect as if it were respectively taken, made, directed, passed, given, executed or issued under these regulations.”*

Significant is to require a company auditors giving a satisfactory rating under the quality control review program of the ICAP and registration with Audit Oversight Board. It is encouraging to note provision for having in place and documentation of Audit, H.R. & Remuneration, Nomination and Risk Management Committees in the code.

Welcome is the requirement on companies posting on their websites key elements of their policies including:

(i) communication and disclosure policy;
(ii) code of ethics;
(iii) risk management policy;
(iv) internal control policy;
(v) whistle blowing policy;
(vi) corporate social responsibility/ sustainability/ environmental, social and governance (ESG) related policy.

Rule-27 of the proposed regulations calls for holding, at least, quarterly meetings by an Audit Committee. This suggests virtual 'hands off' by the committee from accounts of the company. To have due functioning it should be must for the committee to have monthly meetings.

The provision regarding the head of internal audit functionally reporting to the audit committee and administratively to the chief executive officer is tricky, forcing the internal audit head to always look to the chief executive officer. Called for would be to put the head of internal audit within the jurisdiction of the audit committee both functionally and administratively.

Not permitting one to simultaneously hold offices of CFO and company secretary is a welcome move. The determination of qualification for a company secretary appears to have been left to the commission. The issue could better be tackled through recognition to ICSP, consequent upon reorganization of the Institute of Corporate Secretaries of Pakistan (ICSP), now a company registered by guarantee, which through the years appears to have gone dysfunctional. Needed is reorganization of ICSP under a specific law like ICAP & ICMAP.

Provision to the effect that same person shall not hold the office of CFO and Company Secretary has a healthy incoming.

The code permits appointment of a company secretary as secretary of the audit committee. This proposition compromises the position of company secretary as also of the audit committee. Functioning of the company is through the company secretary. He knows ins and outs of the company. Is privy to all activities of the board. Because of being in know of, also background of the Board's decisions, a company secretary's sitting as secretary of the audit committee will compromise his position. Knowing relevant happening in the company, he may not be comfortable before the audit committee which, during its meetings, may force him to come out with his version on the Board's decisions. This would turn him being not trustworthy as far as the Board is concerned, with the Audit Committee following suit. The secretary shall loose the Board's confidence, which will have adverse effects on working of the company secretary. Being appointed secretary of the audit committee he may be charged by the Board for the wrongs cited by the committee. Taking him for the establishment's man, the audit committee should also not be comfortable with his occupying the position of company secretary. Accordingly required would be repeal of the provision for secretary of the company being permitted to be secretary of the audit committee.

In view of the complexities of business, onerous regulations, continuing beef-up of issues and related guidance, literature availability, what should have been done is effecting reduction in the number of companies one can be a director of. It would be in fitness of the things if the number is brought down to three, a reduction of two in comparison with what was allowed earlier. This is a number, issues related with which a director can be expected to really and meaningfully attend, contributing to chartering of the companies.

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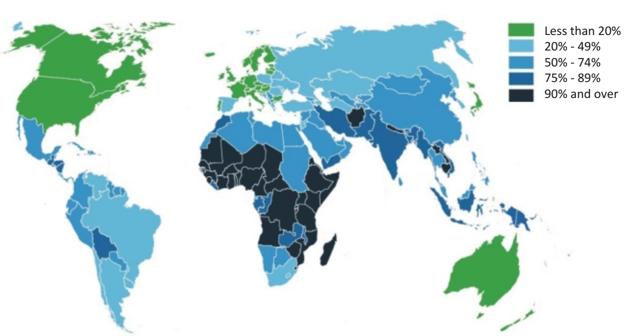
Formalizing the Informal Economy

In a recent interview, the Chairman, Federal Board of Revenue (FBR), Mr. Shabbar Zaidi, has stated that Pakistan's GDP growth is not slowing down but accelerating if the undocumented economy is accounted for (Pakistan Defence, 2019). This made me think about the undocumented economy of Pakistan. In 2017, Chairman Tax Committee of the Institute of Chartered Accountants of Pakistan (ICAP) made a claim to Business Recorder that 70 percent of Pakistan's economy is undocumented. The same claim is corroborated by the International Labour Office, Geneva, where they classified Pakistan in countries with informal labour between 75-89%.

Picture 1: Share of informal employment in total employment



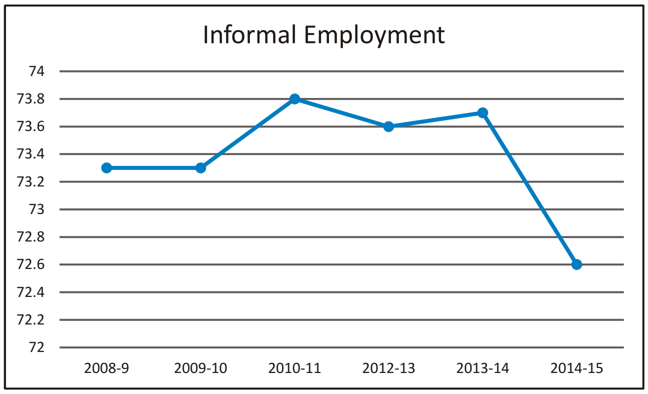
Source: International Labour Office, Geneva,

The worst part is that Pakistan is not improving in the undocumented economy trend as evidenced by the chart below where the economic survey of Pakistan shows informal economy at 72.5% and 74% during last 5 years. 2011-12 data wasn't available due to the fact that the Labour Force Survey wasn't published in 2011-12 (Government of Pakistan, 2011, 2012, 2017).

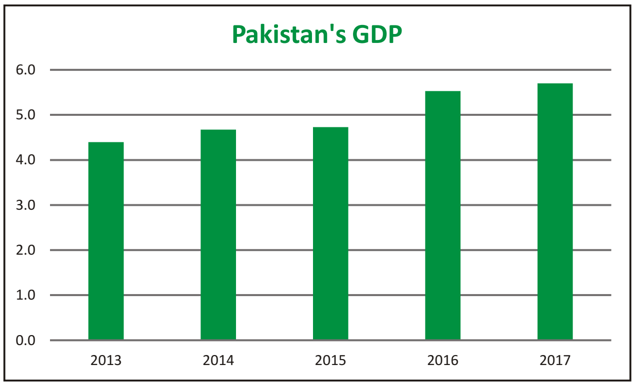
Pakistan's GDP has also seen a steady growth of between 4 and 6 % over the last 5 years and with the stable informal employment means that Pakistan's informal economy is also growing.

Rauf Ali Jan, ACMA

The informal sector is unavoidable in any economy as visible in picture 1 above. All the countries in the world have the informal sector, which plays an even bigger role in developing countries like Pakistan, where the informal sector provides a bigger piece of employment (refer graph 2) and income. Informal sector provides employment and contributes to the income, however, it also promotes unregulated, untaxed and undocumented economy, which doesn't add much value to the overall well-being of the



Source: Economic Survey of Pakistan



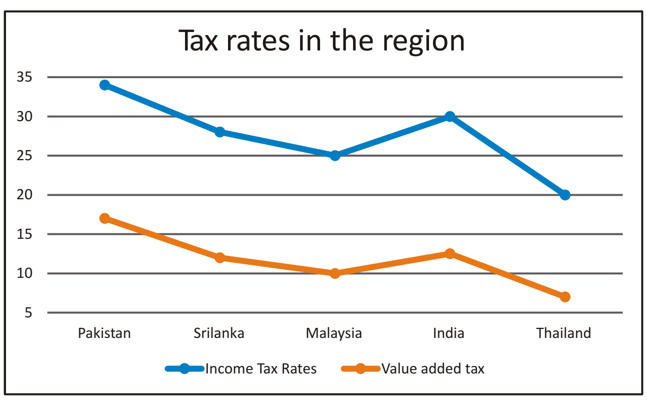
Source: The World Bank

country and people at large as the benefit of employment cannot be traced back to taxation or regulatory systems and the wealth will ultimately accumulate in few hands instead of distribution to masses.

Root causes of Informal Economy

Some of the root causes of the informal economy are highlighted below:

- **Ease of doing business:** Pakistan is ranked 136th among 190 economies in the ease of doing business Report 2019 of the World Bank. The ranking of Pakistan improved to 136 in 2018 from 147 in 2017, however, the improvement is not enough. Businesses, which want to be registered, regulated or documented do not become official due to the rules and regulations needed to register as a business.
- **High tax rates:** According to a December 2015 World Bank report, Pakistan's corporate income tax rate – tax on profits – is the third highest in the world. Corporate tax rate of Pakistan is currently 34% which is quite high as compared to other Asian countries, refer the chart below. One of the biggest benefits of undocumented business is the avoidance of taxes (direct and indirect). Only 1% of Pakistani pays tax as per FBR . The avoidance of tax through undocumented economy encourages the informal businesses to remain unregistered and this becomes the endless loop.



Source: The World Bank

In addition, the administrative burden of tax compliance is hardest in Pakistan where firms have to make 47 payments and spend 594 hours (or 74 man-days per year) dealing with tax regulations compared to 12 payments and 175 hours in high-income OECD countries.

- **Weak law enforcement:** Pakistan is ranked 156th among 190 economies in law enforcement. On average, enforcing a contract takes over 3 years in Pakistan. Weak law enforcement supports corruption and under the table culture, which is also the factor to remain undocumented. The business can get any benefit of being registered by bribing the officials and the weak law enforcement covers it up for a long time.
- **Low Financial resources:** One of the main reasons of undocumented economy is the lack of financial resources as per the survey conducted by State Bank of Pakistan. Many businesses don't become mainstream as they see the business to organically grow within the family and are reluctant to obtain bank loan due to cultural or religious beliefs.
- **Returns in informal businesses are higher:** Undocumented businesses can avoid many costs such as licensing, registration, compliance with laws and can also hire unskilled labour and don't pay them the fair pay, which results in higher profits for the businesses. This also results as a deterrent to the registered economy.

Proposals to regularize the undocumented businesses

The following measures are suggested to regularize the undocumented businesses in Pakistan:

Ease of doing business

- Pakistan made 'starting a business' easier by enhancing the online one-stop registration system, replacing several forms for incorporation with a single application and establishing information exchange between the registry and the tax authority. Similarly, registering property and resolving insolvency have become easier . Related measures can also encourage businesses to avoid non-registration. One of the main pull strategies for the businesses to overcome is to give them the incentive to regularize their businesses by giving them access to financial markets, reduction in registration costs, no-questions-asked about the previous assets, etc. which can reassure businesses to become mainstream.
- There may be businesses which do not have the capacity/ resources to become registered fully compliant with regulations. The government may have

to assist those businesses with ease of registering, periodical updates or create centers which can help them with filing/ maintaining records.

- Customized restructurings: One of the main reasons for government failures in attracting businesses to become documented, is the one size fit all approach for documentation/ registration. Every business has a different need and requires different perspectives. What might work for sports goods industry in Sialkot may not work for the textile sector in Faisalabad. To obtain the maximum benefit of restructured regulations, the government should consult all the relevant stakeholders, understand the reasons for not registering and formulate the regulations accordingly.

Taxation system transformation:

- Taxation system can be the biggest hurdle or incentive for informal business to register. The government offers tax amnesty scheme every now and then to attract non-declared assets to become part of taxation system. The government has issued five such schemes since 2013. The concept is not new, India, Argentina, Russia and other countries have done it in the past decade but none of these countries have done it as frequently as Pakistan. The issue with amnesty scheme is that it attracts only small portion of society while the large proportion remains undocumented. The amnesty schemes will continue to be offered until the proper taxation system isn't in place. The government needs to transform the taxation system by bringing the non-documented industries/ companies/ individuals into the tax system, which will take time but customized restructuring, after consultation with all the stakeholders, trust on the government, benefits to the tax payers, etc. will help businesses come into the tax system.
- The taxation system in Pakistan requires several businesses and individuals to file the tax return such as a person who owns 1,000 CC car, every company, every not for profit, any person who is earning 400,000 per annum or 33,333 per month, etc. if these criteria are enforced, the tax filers will definitely be more than 1%.
- The government is deducting withholding tax at several venues to incentivize persons to be part of tax net such as at the time of buying vehicle, banking transaction above Rs. 50,000 in a day, cell phone bills, etc. it provides a good benefit to a person to claim refund of such withholding taxes by filing a tax return.

Weak law enforcement:

- Corruption does not only affect society legally/ ethically but also economically. It provides a way out to the defaulters/ non-compliant to veil from being registered. The significant reorganization is required at the institutions and judiciary system to overcome the weak law enforcement. Improved transparency, one-window operation, lack of bureaucratic hierarchy, the penalty for those involved and educating the masses will help overcome this issue.

Low financial resources:

- Businesses generally start out of the capital of the owners, however, as they grow, they obtain credit from banks, enter into agreements, merge or go public. The access to credit from other than banks is scarce and bank loans come at a huge documentation requirement, which an informal business may not be able to provide. Easy access to bank credits to bring informal businesses in the documented economy should be a quick fix. State Bank of Pakistan has issued several guidelines in the past to issue loans for agriculture/ solar energy at favorable terms and the same can be done for the informal business.

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Income Tax Reward Scheme and Ease of Return Filing – A Way Forward to Formal Economy and Income Based Taxation

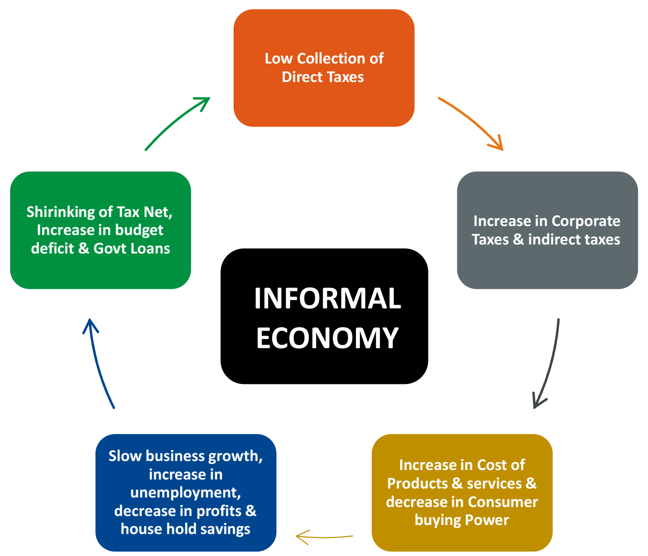
Mobin Safdar

Preamble:

An informal economy is a real challenge in under-developed countries and Pakistan is also facing same issue which has left many adverse footprints in different areas of development. In this write up, the impact of informal economy on taxation will be focused. It will caste reflections on need of documentation; the reasons why we are still struggling with it and options to transform from informal to formal economy.

In today's world, technology has influenced every single area of life and my suggestions are also centered around widespread and people friendly use of technology. The solution-set will largely make use of existing infrastructure.

In undocumented economies, low direct tax collection creates a vicious circle of unprecedented increase in corporate taxes and indirect taxes for end user which ultimately result in higher cost of products and services falling beyond buying power of consumer. This wicked problem causes slow business growth, increased unemployment, reduction in profits, household savings. At macro level, tax net shrinks, budget deficit balloons and government loans swell. The cycle goes on. The worst aspect of the problem is ever increasing intensity. Every year, this vicious circle becomes more detrimental than previous year.



Why we need Documented Economy?

Documentation of economy has its own cost but eventually the benefits of documentation outweigh the costs. At present, lack of documentation is directly and indirectly causing grossly low tax revenue collection. The table below paints an astonishing picture of regular IMF loans and other external and domestic loans due to regular budget deficit.

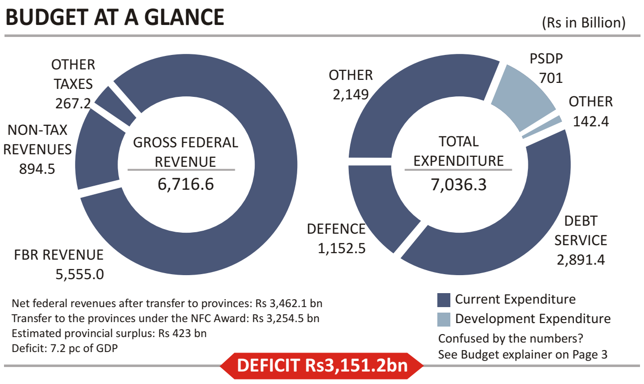
Description	FY – 2018 (Million US$)		
	Principal	Interest	Total
Public debt			
1) Government debt	4,105	1,555	5,660
2) From IMF	86	128	214
3) Foreign exchange liabilities	0	103	103
Total Public Debt	4,190	1,787	5,977

Source: State Bank of Pakistan (http://www.sbp.org.pk/ecodata/pakdebtsvr_summary.pdf)

The amount of debt servicing is way too high. For FY 2019-20, the amount allocated for debt servicing is Rs. 2891.4 billion which becomes 43.2% of total budget volume and is awfully

300% higher than Public Sector Development Program. The deficit of Federal Government surmounts to Rs. 3151.2 billion.

Governments prefer imposing indirect taxes being an easy tool. However, it proves counter-productive as it slashes buying power and savings of the poor and the middle class. It is widely accepted that taxation should be carried out on the basis of income. If this aspect is overlooked, a social imbalance may take place leading to instability and economic downfall



Source: https://www.dawn.com/news/1487720

Why we are Struggling to Move Towards Documented Economy?

Societal analysis shows that everyone wants to take maximum advantage of his earning and avail free facilities. Majority of people avoid paying taxes voluntarily, even in the developed countries. Therefore, governments introduce laws for making their citizens legally liable to pay their due amount of taxes. This practice may be successful in developed economies where institutions are well structured, independent and people have confidence in their governments with regard to fair usage of public tax money. This is an evolutionary process which is based on many enablers like better economic conditions, law and order situation and political setup of a country. This cannot be developed overnight.

Pakistan's case is different from developed and somehow also from under-developed nation. It is simultaneously included in the club of highest charity paying nations and that of having lowest Tax to GDP ratio. Here, we need to analyze the reasons behind charity. People spend in alms and charity to get reward from Holy God. However, when it comes to tax collection, people have a tendency to evade and society has considered it a sole responsibility of tax official to collect taxes fairly without making people a stakeholder or even privy to tax collection.

Majority of Government revenue comes from corporate Income taxes and indirect taxes which ultimately have an effect on end users. The core reason behind this anomaly is that end user is not happy with the payment of sales tax. Wherever consumer finds an opportunity, he/she avoids paying sales tax. For example, most of the people do not want to pay taxes on garments or branded products. Therefore, consumer chooses a retailer who does not charge him with the sales tax and eventually the retailer gets the opportunity to hide his real income while consumer pays less as sales tax is not charged. In this equation, both retailer and consumer are winners, but government, fair businessmen and society are losers.

Upon dissecting and analyzing the supply chain, it is found that somewhere during the manufacturing of garment (from ginning to finishing), sales tax is involved at different stages which is ultimately paid by the end-user. The companies registered with the tax department having the facility to adjust their input taxes against the output tax, face no financial burden except causes due to higher product prices. This facility encourages companies to purchase from registered supplier so that they can claim their input tax. The factor forcing them to do so is that they cannot get their amount reimbursed if they are unable to produce Sales Tax Invoice / Data to the tax authorities. In this mechanism, the solution lies. It can help convert undocumented economy into documented economy.

A person earning according to minimum wage of 14,000 PKR must be spending major portion of his income on FMCG (Fast Moving Consumer Goods). An example from FMCG Sector would be worth quoting. Every household purchases cooking oil, ghee, shampoo, toothpaste, soaps, detergents, processed foods, tea, processed spices and other items. These are already charged with the sales tax amount. If an amount ranging from 30 to 50 percent of his income is spent on these items, the Government can reward him with reimbursement facility as advised under the "Proposed Tax Rewards". In this case, the buyer would prefer purchasing these items from a register seller so that he/she could get his amount paid in lieu of sales tax reimbursed. This will lead to better documentation. A trend will be established soon enough to buy from registered supplier. Market dynamics will ultimately compel all unregistered persons to get themselves registered or lose their compatibility in the market and the end user to take advantage by filing their tax returns. It is worth mentioning here that retailers and whole sellers are most criticized in terms of lack of documentation which could not be enabled using state force.

Proposed Benefit Scheme for Corporate/ Companies

Highest Income Tax Paying Company of Financial Year in each industrial/Business Sector will be rewarded with Income Tax exemption at Percentage mentioned against Category A & B;

1. **Category B 100% I.Tax Reward (1st Top Company in each industrial/Business Sector)**

   If A Company achieves the position of Top 10 Tax payer in relevant industrial sector for 5 consecutive Year for 1st time & 3 consecutive year after passing the benefit year. Filling of Income Tax return will remain mandatory.

2. **Category A 50% I.Tax Reward (1st Top Company in each industrial/Business Sector)**

   If a company remains successful in increasing tax profit by 50% compared to last year and maintains a place in Top 100 Tax Payers for Last 3 Tax Period (before or after passing the benefit Year) in relevant industrial/Business sector.

Winner of the categories will be announced publically and intimation letter to winner companies, runner-up 9 Companies of each sector along with a copy to Federation of Chambers may also be sent within 60 days of 1st closing date as announced by the federal government/FBR for Income Tax Filling for relevant Business Sector. No Participation will be accepted during extension period of filling.

Re-Imbursement Process will be adopted for Reward along with a dinner ceremony at highest state level. To ensure transparency of the system, runner-up company may give the right to appeal for review if they can satisfy the tribunal.

Proposed Benefit Scheme for Individual

Salaried Person

Person filing his/her Income Tax return for 3 consecutive years will be rewarded;

1. 50% of Income Tax refund to highest income tax payer by Percentage of income in each tax slab.

2. As 7% GST reimbursement on uploading Income Tax invoices in FBR System within the 14 days from the date of purchase as mentioned on invoices. All purchases for month must be entered before 10th day of the next month.

The invoice must contain Seller NTN & Buyer NTN/CNIC number. The dependents of buyer may be allowed to Purchase against his/her own CNIC and claim may be proceeded through relevant personal log-In.

Dependent may be incepted in system at the time of Registration, before start of financial year or within 60 days after becoming dependent.

A person may be considered dependent only if he/she is minor and does not possess any source of income except support from the father/guardian/spouse. Reimbursement may be made within 45 days of 1st ending date of Income Tax return. The amount will be credited directly to the designated bank account through an automated system.

Other than Salaried Individual

Individual filing his/her positive income tax return of an amount not less than Rs.25,000/- for 3 consecutive years will be rewarded as;

1. 50% of Income Tax refund to highest income tax payer by Percentage of income in each tax slab.

2. 7% GST reimbursement on uploading I.Tax invoices in FBR System within the 14 days time from the date of purchase as mentioned on invoices. All Purchases for the month must be entered before 10th day of the next month.

   The invoice must contain seller NTN and buyer NTN/CNIC number.

   The dependent of buyer may be allowed to purchase against his/her own CNIC and claim may be proceeded through relevant personal log-In.

   Dependent may be incepted in system at the time of registration, before start of financial year or within 60 days after becoming dependent.

   A person may be considered dependent only if he/she is minor or does not possess any income except from the father/guardian/spouse.

On Income Tax Payment of not less than 100,000 per annum /- for 3 consecutive year will be rewarded with health insurance for self and family for next financial year along with the benefit above. This facility is to be restricted for the category only.

How to Resolve Return Filing Issue

Reward will encourage people to join the club of taxpayers. However, some issues may be encountered while filing the returns. In order to make it use friendly, return filing system should be formulated while keeping in view all segments of society. It should be comfortable to all, whether educated or illiterate, technological adept or a technophobe, familiar with accountancy and taxation or not. Here, some basic suggestion are put forward which can dramatically change the whole picture.

1. Rename Income Tax return as “Income & Expense Return”. It can bring some sense for general public that it is not mandatory to file a return only when they have certain level of income.

2 Currently, tax filing is a complex process. The user interface of system is not easy to use for individual. It requires professional help. Government should consider launching exclusive tax return web portal and smartphone application for hand held devices for individual return filing. There should be only two heads Income and Expense with maximum simplicity under these heads.

3. Facilities for tax return should be provided not by the FBR but through the banking channel. Pay them reasonable fee on per tax filling along with a commission percentage of tax amount. By doing it through private sector, it will not only improve customer satisfaction but a positive sentiment will be created in the society.

4. Engage youths, design Individual Tax Return Certificate Program in coordination with HEC. Students of graduation and masters in commerce, business administration, accounting and finance, business law & students of professional studies i.e. CA, CMA are already studying theoretical application of tax. Authorities only need to make it compulsory to have this certification program. Universities already have IT infrastructure. They only need to impart practical training through demo application.

5. On passing out, register those as Individual Income Tax practitioner. Offer them commission on the amount of Tax filled. It will increase the percentage of Positive income tax return.

Conclusion

At the end of this article, I want to quote a famous dialogue from movies “Godfather” that is “I'm going to make him an offer, he can't refuse”. This is high time for our government to make an offer to public, which they can't refuse.

About the Author: ***Mr. Mobin Safdar*** *is currently serving as Senior Auditor in a federal government department. He carries more than 7 years' experience of accounts and audit in leading organizations of public and private sectors, including Nishat, Pakistan.*

Employment in the Informal Economy:

The Case of SAARC Countries

By Research and Publications Department

The informal economy, which goes by many names such as hidden, underground, unorganized, shadow, black or parallel economy; is a matter of much concern not only for Pakistan but also for other developing and developed nations. The informal sector is providing employment opportunities to a sizable labour force and indirectly contributing towards economic development of these countries.

The informal economy is generally defined as the business activity and income that is unregistered; unregulated, untaxed; not monitored by the government' and not reflected in the Gross National Product (GNP), unlike the formal economy. It can comprise either self and wage employments and small-scale businesses, operated from homes, street pavements etc. The International Labour Organization (ILO), a specialized agency of the United Nations (UN), has classified the informal economy into two categories viz. (1) Coping Strategies (survival activities) - e.g. casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple jobs holding etc. and (2) Unofficial Earning Strategies (illegality in business) - include both unregistered and criminal activity. According to ILO, notwithstanding overlap between the two categories, a major of informal economy is legal and accepted by governments.

(1) Coping Strategies

(casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple job holdings

(2) Unofficial Earning Strategies

2.1 Unofficial Business Activities (Tax Evasion, Non- Registration, and Avoidance of Labour and other government and institutional regulations)

2.2. Underground Activities (crime and corruption)

Motives and Causes of Informal Economic Activity

The existence and rapid growth of the informal economy in both the developed and the developing countries of the world can be attributed to the following economic and non-economic reasons:

1) Cumbersome requirement for corporate registration (formal sector)
2) Corruption and Red-tapism in the bureaucracy
3) Lack of credibility and trust towards government
4) Complexity of tax system and high tax burden on formal sector
5) Inability of formal sector to generate sufficient jobs for surplus labour
6) Economic stagnation and recession / economic instability
7) Low rate of industrialization and productivity
8) High cost of formal production
9) Intensive use of cheap unskilled and semi-skilled labour force
10) Greater flexibility and satisfaction of work in informal sector
11) Over-regulation of market sector by the government
12) Undeveloped market institutions and enforcement mechanisms
13) Low degree of economic liberalization
14) Strict formal business regulations such as licensing and inspection

Apart from the above-cited reasons, there may be other reasons as well which force the businesses to opt for informal economy with deliberate attempt to avoid taxes and regulatory reporting requirements.

Merits and Demerits of 'Informal Economy'

MERITS	DEMERITS
1. Contributes indirectly to economic growth	1. Revenue loss to government due to tax evasion
2. Stimulates the formal or official economy	2. Lack of legal control that leads to illegal activities
3. Provides ample employment opportunities	3. Low paid jobs and poor job security
4. Reduces unemployment and poverty	4. No legal and social benefits to workers
5. Generates sizable personal income	5. Lack of economic security
6. Maintains flexibility of production	6. No access to formal sources of finance
7. Helps in meeting market demand of products	7. Unprotected labour laws
8. Puts competitive pressure on formal sector	8. Unrecorded cash transactions to avoid taxes
9. Increase variety of products sold in market	9. Incorrect measurement of GNP
10. Helps bring down market prices of goods	10. Unreported revenues in National Accounts

(Source: ICMA Pakistan Research)

Formal and Informal Employment

The informal sector in every country constitutes a substantial share of GDP and labour force. According to an estimate, the informal sector now encompasses around 60% of global labour workforce or around 40% of global GDP. The informal economy in the developing countries has witnessed massive expansion.

ILO in the third edition of its publication titled "Women and Men in the Informal Economy: A Statistical Picture' [released in April 2018] mentions that over 60 percent of world's employed population, which comes to around two billion people, earn their livelihoods in the informal economy. The Report states that evidence shows majority of the people enter the informal economy not by 'choice', rather as a consequence of lack of opportunities in the formal economy and absence of other means of livelihood.

According to the ILO publication, the highest percentage of workforce in informal sector is in the developing countries (90%) whereas the lowest share of workforce is in the developed nations (18%). At regional level, the sub-Saharan Africa tops with 92 of employment workforce in the informal sector.

Informal Workers by Gender and Status in Employment

At the global level, men have higher rates of informal employment than the women. However, in the developing countries women are more in the informal sector (92%) than men (87%). As far as informal workers from the perspective of status in employment suggest that 64% are self-employed as against 36% wage employers. The same trend is witnessed in the developed, developing and emerging countries.

According to ILO, self-employment is pre-dominant aspect of the informal economy and a vital source of livelihood for women in the developing world, especially in those areas where cultural norms bar them from work outside the home or where, because of conflict with household responsibilities, they cannot undertake regular employee working hours.

Global Snapshot

Table 1.1: Workers in Informal Sector
[as %age of Total, Rural and Urban Employment]

Countries by income level *	Total	Rural	Urban
World	61	80	44
Developing	90	90	79
Emerging	67	83	51
Developed	18	22	17

* 2018 World Bank definitions based on country levels of gross income per capita

Regional Snapshot

Table 1.2: Workers in Informal Sector
[as %age of total employment by region [excluding developed countries]

Region	Informal Workers
Sub-Saharan Africa (excluding South Africa)	92
Sub-Saharan Africa as a whole	89
South Asia	88
East and South East Asia (excluding China)	77
Middle East and North Africa	68
Latin America and the Caribbean	54
Eastern Europe and Central Asia	37

Table 1.3: Informal Workers by Sex and Status in Employment

Countries by income level	By Gender (as % age)			By Status in Employment (as % age)	
	Total	Women	Men	Wage-employment	Self-Employment
World	61	58	63	36	64
Developing	90	92	87	21	79
Emerging	67	64	69	37	63
Developed	18	18	19	51	49

The Case of SAARC countries

The tendency of informality, especially in the South Asian countries, is on the rise. As per ILO study, almost 96% of young people in South Asia are informally employed whereas over 80% of South Asian women in non-agricultural jobs are in informal employment. Table 2 shows the formal and informal employment in the SAARC countries. As evidenced from the table, the share of informal employment in total employment is highest in Bangladesh (91.3%), followed by Nepal (77.6%); India (74.8%); Pakistan (71.2%) and Sri Lanka (65.9%). As far as the share of informal employment outside the informal sector in total employment is concerned, Bangladesh with 69.8% share tops the list whereas Nepal with 49.7% has the lowest share. Pakistan stands at second position with 68 percent.

Table 2: Formal and Informal Employment in SAARC countries

[Source: ILOSTAT]

Sr.	Country *	Total Employment (a)	Informal Employment (b)	Formal Employment (c)	Employment outside the formal sector (d)	Share of Informal Employment in Total Employment (b/a)	Share of informal employment outside the informal sector in total employment (d/a)
1	Bangladesh	36,135.1	32,992.3	3,142.7	25,247.3	91.30%	69.87%
2	India	2,03,093.2	1,51,957	51,136.2	1,34,199.2	74.82%	66.07%
3	Nepal	5,562.9	4,318	1,244.9	2,765.8	77.62%	49.72%
4	Pakistan	37,421.1	26,654.8	10,766.3	25,471.6	71.23%	68.07%
5	Sri Lanka	5,793.8	3,819.6	1,974.2	3.000.2	65.93%	51.78%

** SAARC countries excluding Bhutan, Maldives and Afghanistan*

Method of computation

1) Share of informal employment in total employment (%) = Informal employment / Total employment x 100
2) Share of informal employment outside the informal sector in total employment (%) =
Persons in informal employment outside the informal sector / Total employment x 100

ILO has defined the 'Informal employment outside the informal sector' as persons who are in their main or secondary jobs namely (1) **Own-account workers** engaged in production of goods exclusively for own final use by their household (2) **Contributing family workers**, irrespective of whether they work in formal or informal sector enterprises and (3) **Employees holding informal jobs**, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households. Two aspects need to be explained here about the last two workers.

The informal nature of jobs of 'contributing family workers' is due to the fact that such workers usually do not have explicit or written employment contracts and also their employment is usually not subject to labour legislation, social security regulations, collective agreements, etc. Similarly, the employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (paid annual or sick leave, etc.) for various reasons.

IMF Working Paper on Shadow (Informal) Economy

International Monetary Fund (IMF) in its Working Paper titled 'Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?" authored by Leandro Medina and Friedrich Schneider and published in January 2018, provides a research on shadow economies in 158 countries of the world during the period 1991 to 2015. Based on results of IMF Working Paper, the GlobalEconomy.com, https://www.theglobaleconomy.com which serves researchers, academics, investors and business people needing reliable economic data on foreign countries, has developed a ranking of 158 countries. As per the country ranking of shadow economy, it transpires that Switzerland has the lowest value with only 6.94 percent in 2015 whereas Zimbabwe has the highest value of 67 percent.

The rankings of the SAARC countries are provided in Table 3.

Table 3: Shadow [Informal] Economy as %age of GDP - Rankings of SAARC Countries

Country	Shadow Economy (% of GDP)	Ranking in 158 countries	Ranking of SAARC countries [1 for lowest and 5 for highest share)
Sri Lanka	35.5%	36	5
Pakistan	31.6%	59	4
Nepal	30.2%	69	3
Bangladesh	27.6%	84	2
India	17.9%	125	1

Note: Highest ranking i.e. 125 means lowest share of shadow economy whereas lowest ranking i.e. 36 means highest share of shadow economy

Sri Lanka: The average value for Sri Lanka during 1991 to 2015 was 45.58 percent with a minimum of 35.49 percent in 2015 and a maximum of 52.94 percent in 1991.

Pakistan: The average value for Pakistan during 1991 to 2015 was 33.1 percent with a minimum of 30.28 percent in 2010 and a maximum of 37.55 percent in 1991.

Nepal: The average value for Nepal during 1991 to 2015 was 37.5 percent with a minimum of 30.22 percent in 2015 and a maximum of 43.39 percent in 1991.

Bangladesh: The average value for Bangladesh during 1991 to 2015 was 33.59 percent with a minimum of 27.42 percent in 2014 and a maximum of 37.12 percent in 1993.

India: The average value for India during 1991 to 2015 was 23.91 percent with a minimum of 17.89 percent in 2015 and a maximum of 28.43 percent in 1991.

ICMA Pakistan

Way Forward

The informal or unorganized or shadow economy in Pakistan is a big business as it is a huge employer and shall continue to play a key role in the future development of Pakistan. Hence, the Government should take it seriously to unleash the potential in informal sector by encouraging the firms and workers in informal economy to make a gradual transition towards the formal and organized sector. In this context, the following suggestions may be considered by the Governments in SAARC countries:

1) It is a fact that informality is more prevalent in economies with more cumbersome entry regulations and rigid labor laws. Hence, the policy makers in SAARC countries must restructure their labour market laws and policies so as to avoid further increase in the level of informality.

2) The informal sector needs to be organized and its contribution to economic development needs to be recognized through increased awareness in governments of SAARC.

3) The vulnerable segments of the society should be provided financial support by the governments in shape of stronger safety nets and greater labor and product market flexibility. The informal firms may also be provided better access to resources.

4) Concrete measures should be taken to create a level playing field for both formal and informal workers and firms as well as ensuring greater access to finance and public services to help increase productivity in the informal sector.

5) All policy making should be made with underlying objective to facilitate formalization of informal businesses and workers and discourage informalization of the formal economy firms and jobs.

"The informal sector needs to be organized and its contribution to economic development needs to be recognized through increased awareness in governments of SAARC"

Post Budget 2019-20
Survey Report

By Research and Publications Directorate, ICMA Pakistan

79% terms the Budget 19-20 as 'Reasonable'

77% thinks Budget is a step forward to progress and development

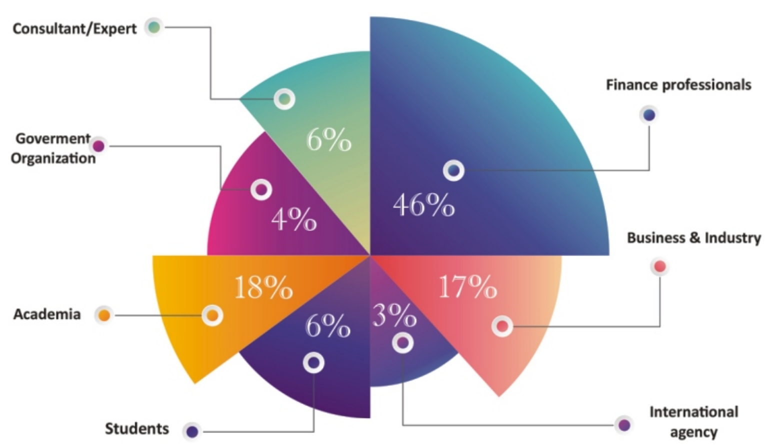
65% agrees present hardships would turn into positive benefits for people and economy

Preamble

Soon after the announcement of Federal Budget 2019-20 on June 11, 2019, the Research and Publications Directorate launched a general survey to seek the initial reaction and feedback of the members of Institute as well as other stakeholders including the business and industry, tax experts, economists, academia and finance professionals. A Google Drive Survey questionnaire was designed and hosted on June 15, 2019 on the Institute's website [https://www.icmap.com.pk/Survey.aspx] as well as on the official Facebook, Twitter and LinkedIn pages. In addition, a number of SMS were sent to members with survey short link for facilitation to fill-up the survey directly from their mobile devices. For maximum feedback, the hard copies of survey questions were also made available to the participants of Post-Budget Conferences organized by ICMA Pakistan in different cities. There was a deadline of 26th June 2019 to submit responses online to 15 survey questions which were focused on different aspects of the federal budget.

There was a good response to the survey and in total 186 members filled-up the survey form; however, 18 of them were not considered being redundant due to various reasons e.g. incomplete information; repetitive input by same person etc. From the 168 valid responses, 87 were from the members of ICMA Pakistan whereas 81 were from non-members. In the non-member categories, the pre-dominant respondents were from the category of Finance professionals e.g. Chartered Accountants [46%]; followed by the Academia [18%]; Business and Industry [17%]; Consultants/Experts [6%]; Government organizations [4%] and International Agencies [3%].

Category-wise Responses

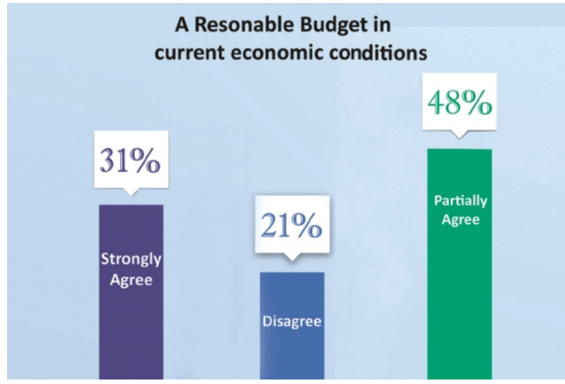


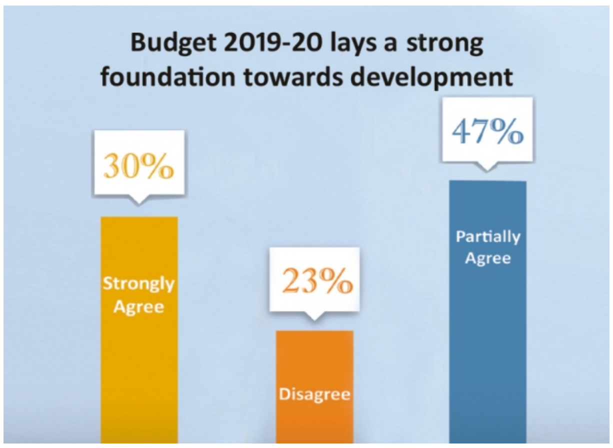
As far as city-wise responses is concerned, almost 90% feedback has been received from four major cities viz. Karachi (26%); Lahore (22%); Faisalabad (30%) and Islamabad/ Rawalpindi (12%). Around 9% feedback was received from other cities in Pakistan whereas 1% members from overseas [UAE and Saudi Arabia] also participated in the survey.

SURVEY RESULTS

79% terms the Budget 19-20 as 'Reasonable'

Majority of the survey respondents (79%) have termed the Budget 2019-20 as quite 'reasonable', considering the present tough economic conditions and tight IMF program. Out of this feedback, 31% participants have shown strong agreement whereas 48% have partially agreed. Around 21% disagree that the budget is reasonable. The outcome to this question is indicative of the fact that the stakeholders realizes that the present Government is passing through a difficult phase of its tenure and albeit these circumstances it has been able to present a balanced budget which is appreciative.



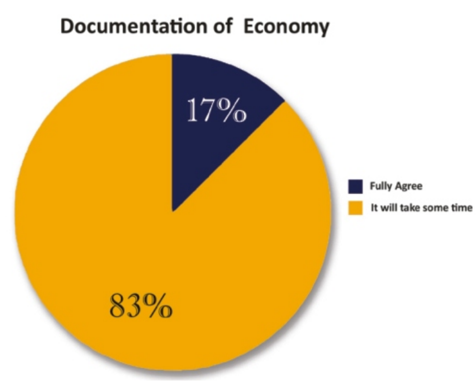


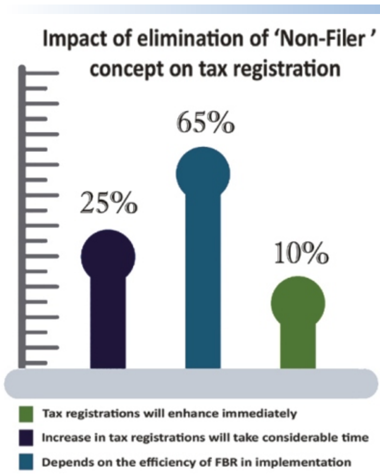
77% thinks Budget 19-20 is a step forward to progress and development

The survey participants were asked to indicate their level of agreement whether budget 2019-20 lays a strong foundation to move the country on road to progress and achievement. The response to this question corresponds to the outcome to the first question; and almost 77% respondents have expressed their opinion in affirmative; out of which 47% have partially agreed. There are around 23% respondents who have disagreed with this notion.

83% are of the view that documenting the economy will take time

One of the questions posed to the survey participants was that do they think that the budgetary measures would result in immediate documentation of the national economy. Two options were provided to select one response viz. (1) Fully agree and (2) it will take some time. Majority of respondents (83) are of the opinion that considering large informal sector and complicated tax system, it would be difficult for the Government to document the economy in a short span of time. They think that though few initiatives are taken in budget 19-20, it would still take much time to document the economy.

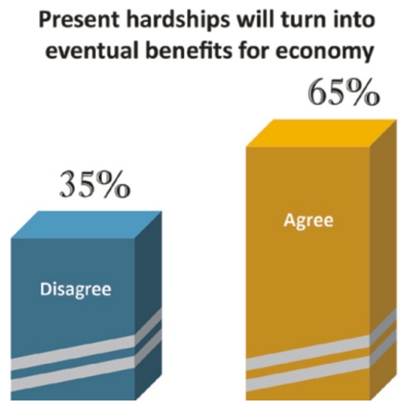




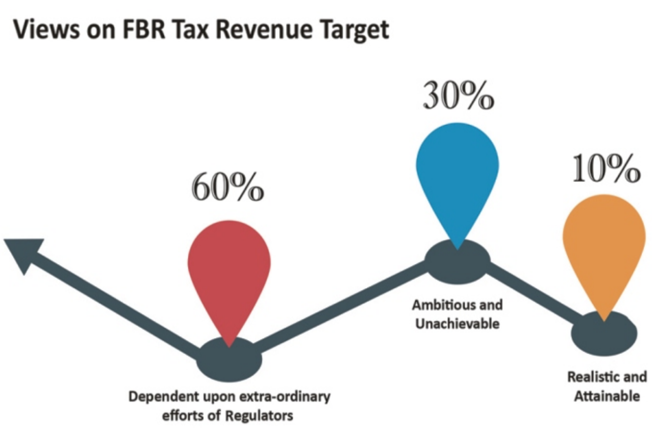
65% believe only serious efforts by FBR can increase tax registrations

Through the Finance Act, 2014, a concept of 'filer' and 'non-filer' was introduced by the Government leading to changes in relevant provision of tax laws. The non-filers were subjected to higher withholding tax rates as against tax rates applicable on the 'filers' whose names appear in the Active Taxpayers List (ATL) of FBR. However, through the Finance Bill 2019, the term of 'non-filer' has been abolished from the statute and special provisions have been introduced by FBR for persons not appearing on ATL. In the backdrop of this change, survey participants were asked whether this initiative would lead to any increase in tax registrations. A smaller percentage (10%) of survey respondents have agreed that it could result in increased tax registration and 25% have mentioned that it would take considerable time; however, a major portion of the respondents [65%) thinks that it solely depends on the serious efforts and efficiency of the FBR.

65% agrees present hardships would turn into positive benefits for people and economy



To gauge and assess the trust level of people on the Government and its recent budgetary measures, the survey participants were requested to express their agreement or otherwise with the Government's claim that though budget contains few harsh measures but at the end these would have far reaching positive benefits to the people and the national economy. Almost 65% of respondents have showed inclination towards this claim of government and pinned much hope on it that albeit harsh measures now, things will improve gradually for the benefit of people and economy. Around 35% of the survey participants have, however, not agreed with this statement.

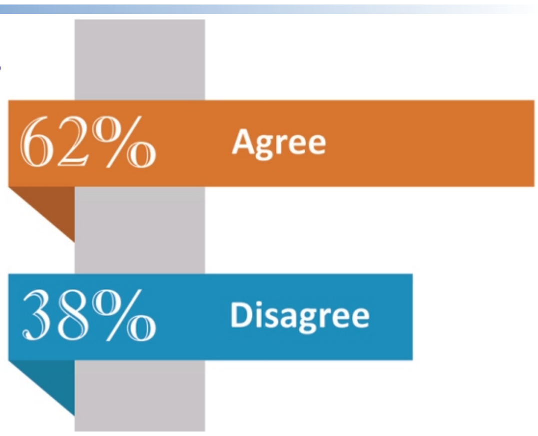


60% says exceptional effort required from FBR to achieve Rs. 5550 billion revenue target

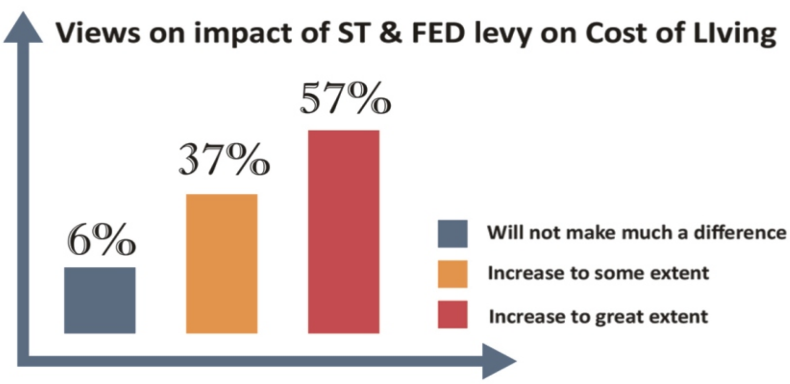
In response to a question about the FBR tax revenue target of Rs. 5550 billion set for FY 2019-20, which comes to around 12% of GDP, almost 60 percent of survey respondents have indicated that exceptional effort is required on the part of FBR to achieve this record target. A good percentage i.e. 30% of respondents think that the target set is not only 'ambitious' but also 'unachievable' whereas only 10% believe that the estimated revenue target is realistic and attainable by making serious efforts.

62% favours sales tax on local supplies to zero-rated export sector

In the Federal Budget 2019-20, the government announced to rescind SRO 1125 thereby ending sales tax exemption under the zero-rated regime for five sectors. Despite strong opposition from the industries, 17% GST has been imposed. The survey participants were asked to comment whether the imposition of sales tax on local supplies to export-oriented units is a good move to curb flying invoice business. Majority of them (62%) have supported this move and agreed that it is a good step by FBR to broaden tax base and tackle corruption whereas 38% expressed disagreement on this decision.



94% thinks ST and FED levies on essential items to increase cost of living



In the Federal Budget 2019-20, the Government has imposed sales tax and FED on few essential items of daily use like sugar, cooking oil, soft drinks etc that would be impacting the common man. In this regard, it was asked from survey participants whether they view it as a means to increase the cost of living of general public. Majority of the respondents i.e. 94% have agreed, though out of them 37% think the cost impact will be to some extent. Around 6% of respondents are of the view that the imposition of sales tax and FED will not make much a difference.

80% demand downward revision of tax rates and slabs on salaried individuals

In the Finance Bill 2019, the Government proposed tax rate of 5% to 35% on twelve different slabs of salaried individuals. The tax rates are progressive in nature that raises with increase in salary limit. The justification given by the government for this kind of taxation on salaried class is that the previous government in the last budget, announced before elections, had increased the minimum salary limit from Rs. 4 lacs to Rs.12 lacs per annum; due to which at least 5 million taxpayers were eliminated from the tax net. To adjust the unrealistic concessions given in last year's budget, the present Government has now reduced the minimum limit to Rs. 6 lacs and increased the number of tax slabs for salaried class.

The survey participants were asked to share the viewpoint on introduction of 11 tax slabs and increased tax rates in the budget and whether it should be withdrawn altogether or revised downward. Two separate questions were included in the survey questionnaire and the responses to both these questions are as under:

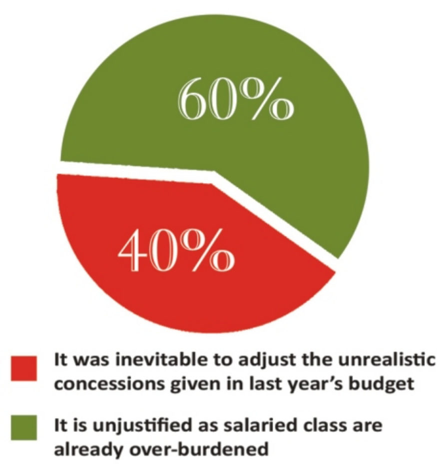
Tax rates and Slabs

- 60% considers tax increase on salaries persons as 'unjustified' being over-burdened and inflation-stricken.
- 40% views this decision as rationale in order to adjust the unrealistic concessions given by previous government

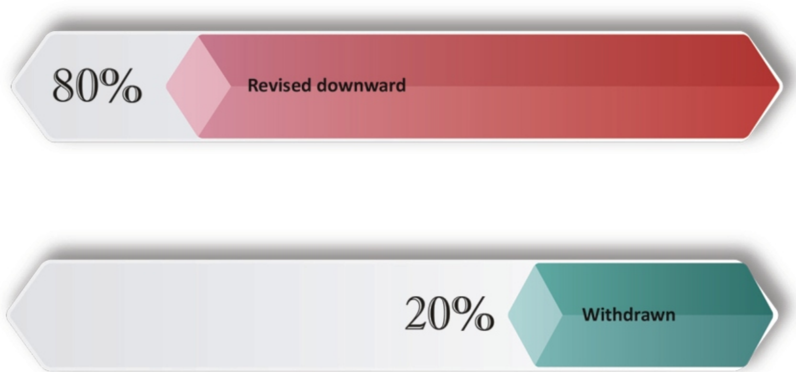
Withdrawal or Downward Revision

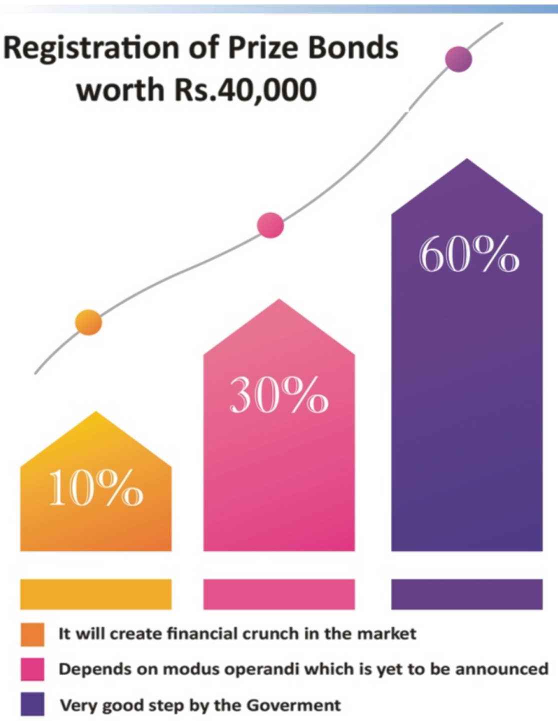
- 80% demands from Government to revise downward tax rates and number of tax slabs for salaried persons
- 20% says that the previous rates and slabs on salaried persons should be restored and proposal be withdrawn

Views on Tax rates and Slabs



Tax rates / slabs be withdrawn or revised downward

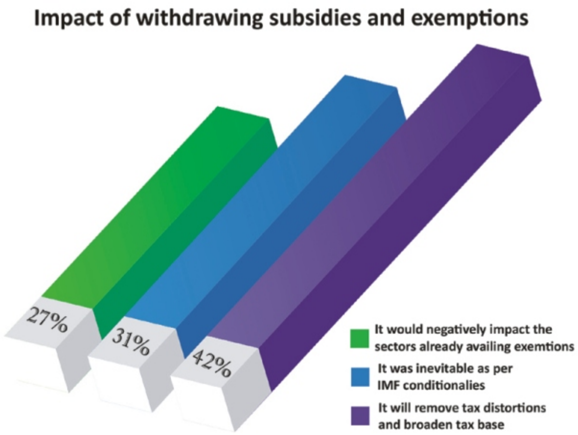




60% endorses Rs. 40,000 prize bonds registration as a move towards documentation

The Government is tightening the noose around those having black money and in the recent budget, under the amnesty scheme, it has made it clear that the prize bonds would soon be banned. As a step forward, the government has announced mandatory registration of prize bonds worth Rs 40,000. In this backdrop, the survey participants were asked to share their opinion as to whether they support this initiative or else they have some other opinion in this regard.

Around 60% respondents endorsed and appreciated the government's decision to go for the registration of Rs. 40,000 prize bonds which they view as a step towards documentation and curbing the circulation of black money in the economy. Around 30% survey participants reserved their comments on this question by saying that it depends upon the modus operandi to be announced by the government [by the time this survey was launched, details were not announced by the government]. Only 10% respondents indicated that such a move will create financial crunch in the market.



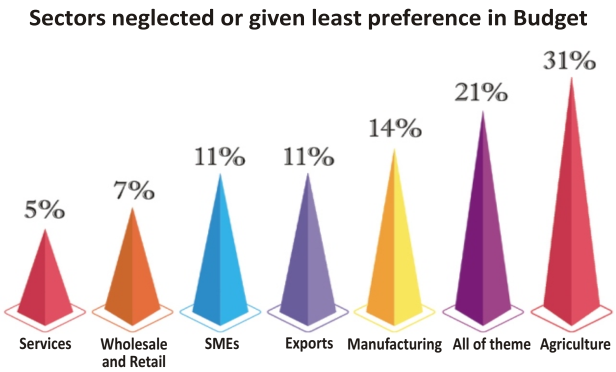
73% supports withdrawal of exemptions availed by various economic sectors

The Government has decided to withdraw all kinds of subsidies, exemptions and concessions given to different sectors of economy. In fact, this step has been taken on the basis of concern expressed by the IMF over the massive tax exemptions given to various sectors. As per the Economic Survey 2018-19, Pakistan's tax expenditures in the form of exemptions have been recorded at Rs. 972.4 billion during the FY 2018-19 as against Rs. 540.98 billion in FY 2017-18.

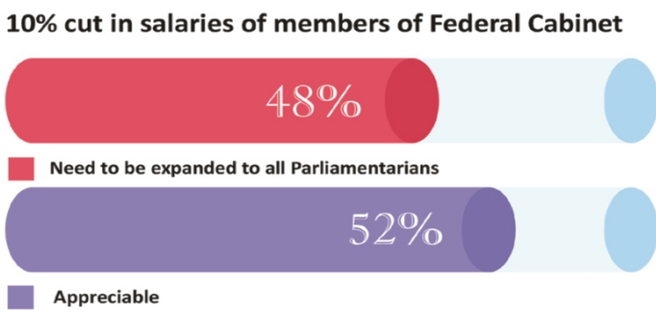
The survey participants' viewpoint was sought about the impact of ending of multiple tax concession and exemptions to various sectors of economy. Almost 73% of them have supported this move by the Government, out of which 42% are of the view that it will remove tax distortions and broaden tax base; whereas 31% think that it was inevitable as per IMF conditionalities. Only 27% of respondents believe that it would have negative impact on such economic sectors.

31% points to 'Agriculture' and 14% 'Manufacturing' as neglected sectors in Budget

One of the questions in the survey was to indicate one sector which has been neglected or given least preference in the Budget 2019-20. The respondents were given seven options viz. Agriculture; Exports; Manufacturing; SMEs; Wholesale and Retail; Services and 'All of the above' to provide their feedback. On the basis of outcome received to this question; the agriculture sector has bagged the highest percentage i.e. 31 percent. Around 21% participants of survey are of the view that almost all the above-stated sectors were given least preference in the budget. The sector specific sector which received highest feedback was 'manufacturing' (14%); followed by SMEs and Exports (11% each).



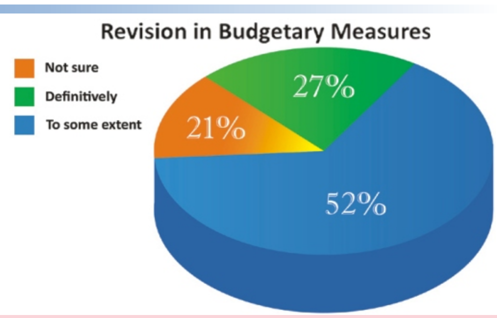
52% appreciates 10% salary cut by Cabinet; 42%42% says all Parliamentarian must follow suit



The Federal Cabinet led by the Prime Minister Imran Khan voluntarily decided to have cut in their salaries by 10 percent as part of austerity measure and keeping in view of the current financial constraints faced by the present government. The reaction of the survey participants was invited on this decision by the Cabinet. Almost all the respondents have appreciated this move not witnessed in the past and 42% of them stated that all parliamentarians must follow suit.

79% thinks Finance Bill 2019 would be revisited after debate in Parliament

Most of the respondents (79%) expressed that in their viewpoint the budgetary measures, including the Finance Bill 2019, would be strongly debated in both the parliaments which would lead to significant changes and modifications. Out of 79%, around 27% were quite definite whereas 52% said changes would be to some extent. Around 21% survey participants preferred to mark the option of 'Not Sure' as they feel not confident to answer this question.



DISCLAIMER: The views expressed by the survey participants do not reflect the official viewpoint of the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan).

BUDGET SPECIAL:

What the Trade and Industry Think about the Possible Impact of Budget on Business and Economy?

R&P Department, ICMA Pakistan approaches the Presidents of leading Chambers of Commerce and Industry Associations to seek their views on the Federal Budget 19-20

The Federal Budget 2019-20 was presented in the Parliament on June 11, 2019 by Mr. Hammad Azhar, the then Minister of State for Revenue. There was a mixed reaction on budget from the tax experts, economists, politicians, business and industry, civil society and the general public. The Research and Publications Department of ICMA Pakistan thought it prudent to approach the Presidents of leading Chambers of Commerce and Industry and Associations to seek their views directly on the budget 2019-20, especially with respect to what they think about its possible impact on the business and economy. In response, we have received some comments/views which are reproduced below. There is a general consensus among all the leading Chambers, with the exception of Karachi Chamber of Commerce and Industry, that the budget has both positive and negative features, however, the positive ones, if implemented could be beneficial for the business and economy.

Shazia Syed
President, Overseas Investors Chamber of Commerce and Industry (OICCI)

"The Chamber supports the Government's attempts to address structural issues in Pakistan's economy, but it will need to be a fine balance between reducing excess and stimulating growth."

"Pakistan is presently faced with a challenging economic environment which requires some sacrifices from all stakeholders. We had therefore expected the Budget for 2019-20 to include measures to address the fiscal anomalies. by scaling up the tax collection and austerity measures to reduce non-development expenditure. The strategic direction of the Budget is in line with these expectations, as it includes a number of measures, which, if enforced stringently, will lead to economic stabilization in the near to medium term. These measures include streamlining the incentives given for exports to avoid misuse, broadening the tax base to rope in tax evaders, controlling illicit trade, increase in taxes for high income groups but subsidizing and supporting the very low-income groups, etc. These measures will stimulate Pakistan's economic growth and lead to poverty alleviation. We are especially hopeful that the measures taken to curb the undocumented economy will boost the share of the formal economic sector.

There were also some concerns and immediately after the announcement of the Finance Bill 2019-20, the OICCI shared some key concerns with the Advisor on Finance/Chairman FBR. Subsequently FBR set up a Tax Anomaly, where OICCI Secretary General was also member, and requested for identifying 'Technical and Legal anomalies'.

The OICCI submitted 23 points for consideration by the Tax Anomaly Committee, based on feedback from members. Key points included; the continuing higher tax rates for the Banking Sector as compared to the general Corporate and Super tax, partial roll back of tax credit for balancing, modernization and replacement, increase in Minimum tax on turnover rates, the proposal to replace Final tax with minimum tax, and big jump in the upper limit of tax slabs on salaries and rental income. We are also concerned by the knock-on effect on cost of doing business and consumption, due to price increases in certain essential items like utilities. The Chamber supports the Government's attempts to address structural issues in Pakistan's economy, but it will need to be a fine balance between reducing excess and stimulating growth."

Almas Hyder
President, Lahore Chamber of Commerce and Industry (LCCI)

"To align the Budget more towards long term economic growth, it is imperative that policy makers should also focus on domestic supply expansion, investment, industrialization, employment generation, export growth and the vision of a large economy."

"It is an honor for me to present my views about the Federal Budget 2019-20 for this issue of "Management Accountant", the official Journal of ICMA Pakistan. The Federal Budget 2019-20 can be analyzed on many dimensions. It would have a positive impact on the competitiveness of our Industry owing to exemption of duties on numerous industrial inputs. However, to align the Budget more towards long term economic growth, it is imperative that policy makers should also focus on domestic supply expansion, investment, industrialization, employment generation, export growth and the vision of a large economy. Furthermore, the Budget should also lend more certainty to the business community about the outlook of economy in terms of policy rate and exchange rate."

"An illusory taxation target has been set which would serve no purpose other than choking the already gasping economy. The government with its lop-sided measures, may achieve the targets, but will destroy domestic commerce in the process."

Junaid Esmail Makda
President, Karachi Chamber of Commerce and Industry (KCCI)

"The Federal budget FY20 has caused quite a stir, not only in the business community but also within people belonging to various walks of life. In all fairness, it is understandable that the incumbent government is trying to bring about measures that will restrict, if not curtail Pakistan's budget and current account deficits. But then again there is a far better way to do it. It seems that whatever relevant suggestions the government took from all stakeholders since it came into power have been simply thrown out of the window just to get a US$6 billion aid package from the IMF. An illusory taxation target has been set which would serve no purpose other than choking the already gasping economy. The government with its lop-sided measures, may achieve the targets, but will destroy domestic commerce in the process. The budget, in actuality, is contrary to every pledge it made during its election campaign related to ease of doing business and attracting foreign investment as some foreign companies are now seriously considering an exodus from Pakistan".

> “We believe that government should use budget as an instrument to promote business activities and industrialization, create new jobs, increase exports and provide relief to the general public.”

Ahmed Hassan Moughal
President, Islamabad Chamber of Commerce and Industry (ICCI)

“The first annual budget presented by the PTI Government seems to be quite burdensome for businesses and common man as it has further enhanced many taxes and abolished tax exemptions. Budget 2019-20 has abolished zero-rating facility for five export-oriented industries and enhanced ST on sugar from 8 percent to 17 percent and imposed 17 percent FED on ghee/cooking oil. Taxes sugary drinks, juices, home appliances cement, steel and marble have also been increased. The scope of ST on services has been expanded while income tax threshold has been reduced from 1.2 million to 0.6 million for salaried class and 0.4 million for non-salaried class. Manifold increase in advance tax on dealers, commission agents and arhatis for issuance or renewal of license has been made. However, government has also taken some positive measures in the Budget 2019-20. The exemptions of CD on raw material/industrial inputs have been given to pharma, health, paper, packaging, textile and other industries. The exemption of CD on more than 1650 raw materials/industrial inputs have been given. Some tax exemptions for cottage industry have been announced. The streamlining of sales tax registration process, setting up Refund Settlement Company to resolve refunds issues, introducing business registration scheme, separating audit and assessment functions and removing ban on non-filers for purchase of property are good measures in budget. However, we believe that government should use budget as an instrument to promote business activities and industrialization, create new jobs, increase exports and provide relief to the general public.”

> “Federal Budget will have far reaching effects on housing and construction industry both positives and negatives. The positives are that it will end speculative buying and dormant investment in plots thereby promoting construction activity.”

Mohammad Hasan Bakshi
Chairman, Association of Builders and Developers (ABAD)

Federal Budget will have far reaching effects on housing and construction industry in Pakistan both positives and negatives. The positives are that it will end speculative buying and dormant investment in plots thereby promoting construction activity. the cost of transfer of property has been reduced both by federal and Provincial governments, FBR values have been brought closer to prevailing market values and transparent and easier system of taxation have been promised.

Whereas negatives are cost of construction have increased by 35 percent due to steep devaluation of rupee, interest rates are too high to afford housing finance, uncertainty due to price hike is discouraging launching of new projects , duties imposed on steel and cement , removal of section 236 W in finance act for buyers of under construction projects and higher rate of tax on rented property will discourage investments in this sector.”

> "It's a very positive sign that despite austerity measures and a very tight budget, the government has still managed to increase the allocation for IT and Telecom sector projects for this year."

Syed Ahmed
Chairman, Pakistan Software Houses Association for IT & ITES (P@SHA)

"It's a very positive sign that despite austerity measures and a very tight budget, the government has still managed to increase the allocation for IT and Telecom sector projects for this year. Information technology will be the core of our export growth and has the potential to provide jobs to millions of our youth entering the market”.

Finance Act 2019 Vs Finance Bill 2019 – A Comparison of Income Tax Provisions

Detailed Analysis By:
Research and Publications Department, ICMA Pakistan

The National Assembly accorded formal approval to the Federal Budget for FY 2019-20 thereby approving the Finance Bill 2019 to give effect to the financial proposals of the government. Subsequently, a Gazette notification No. F. 22(19)/2019-Legis dated June 30, 2019 was issued by the Government, notifying the promulgation of the Finance Act 2019.

The Research and Publications Department has made an attempt to compare the Finance Act (FA) 2019 with the Finance Bill (FB) 2019 to identify the modifications made specifically in the income tax provisions through amendments in the Income Tax Ordinance (ITO), 2001. The outcome of this exercise is presented in the following lines for the information of members and readers.

Additions made in the Finance Act 2019

There are some additions in the FA 2019 which were not mentioned in the FB 2019. Four additions have made in Section 15A; Section 56A; Section 130 and Section 222, respectively of the ITO, 2001 whereas four additions have been made in the Second Schedule; Seventh Schedule and Tenth Schedule, respectively to the ITO 2001. These additions are briefly explained as under:

Section 15A

Section 15A relates to 'Deductions in computing income chargeable under the head 'Income from Property'. Different expenditures and allowances have been provided in Section 15A for computing the income of a company chargeable to tax under 'Income from Property' for a tax year.

FA 2019 has proposed the addition of a new sub-section (7) as under, after sub-section (6) of Section 15A:

"(7) Notwithstanding sub-section (6) of section 15, the provisions of this section shall apply to an individual or an association of persons deriving income exceeding Rs. 4 million under section 15, who opts to pay tax at the rate specified in Division I of Part I of the First Schedule;";

Section 56A

The FA 2019 has proposed to make few changes in Section 56A which is related to set off of losses of companies operating hotels. The changes proposed in Section 56A are as under:

"(10) in section 56A,

(A) after the word 'Pakistan', wherever occurring, the expression 'Gilgit-Baltistan' shall be inserted; and

(B) for the word 'company', the words 'public company as defined in the Companies Act, 2017 and' shall be substituted;"

After making the above changes, Section 56A shall read as under:

[56A. Set off of losses of companies operating hotels. – Subject to sections 56 and 57, where a **public company as defined in the Companies Act, 2017** and registered in Pakistan, **Gilgit-Baltistan** or Azad Jammu and Kashmir (AJ&K), operating hotels in Pakistan, **Gilgit-Baltistan** or AJ&K, sustains a loss in Pakistan, **Gilgit-Baltistan** or AJ&K for any tax year under the head "income from business" shall be entitled to have the amount of the loss set off against the company's income in Pakistan, **Gilgit-Baltistan** or AJ&K, as the case may be, from the tax year 2007 4[onward].

Section 130

Section 130 relates to 'Appointment of the Appellate'. FA 2019 has proposed to replace sub-sections (1) and (2) of Section 130 by rephrasing both these sub-sections and including the term of Inland Revenue Appellate Tribunal as under [the modified phrases are highlighted in red]:

Addition in Section 130 (1) & (2) through FA 2019	Existing sub-sections (1) & (2) of Section 130
<u>Sub-section (1)</u> 1) There shall be established an Appellate Tribunal **to be called the Appellate Tribunal Inland Revenue** to exercise **the powers and perform** the functions conferred on the **Appellate Inland Revenue** tribunal by this Ordinance	<u>Sub-section (1)</u> 1) There shall be established an Appellate Tribunal to exercise the functions conferred on the Tribunal by this Ordinance.
<u>Sub-section (2)</u> (2) The **Inland Revenue** Appellate Tribunal shall consist of a **chairman** and such other judicial and accountant members as are appointed **in such numbers and in the manner as the Prime Minister may prescribe by the rules.**	<u>Sub-section (2)</u> 2) The Appellate Tribunal shall consist of a chairperson and such other judicial and accountant members as are appointed by the Federal Government having regard to the needs of the Tribunal

Section 222

FA 2019 has proposed the addition of a new sub-section 222A after the Section 222 of ITO 2001. The new section 222A provides for the levy of fee and service charges for valuation.

The existing Section 222 and new sub-section 222A are reproduced below:

"222. Appointment of expert. – The Commissioner may appoint any expert as the Commissioner considers necessary for the purposes of this Ordinance, including for the purposes of audit or valuation.

222A. Fee and service charges. – The Federal Government may, by notification in the official Gazette, and subject to such conditions, limitations or restrictions as it may deem fit to impose, levy fee and service charges for valuation or in respect of any other service or control mechanism provided by any formation under the control of the Board, including ventures of public-private partnership at such rates as may be specified in the notification.";

Second Schedule

FA 2019 has proposed that under Part II on 'Reduction in Tax Rates' of Second Schedule [Exemptions and Tax Concessions under Section 53 of ITO 2001], the following new clauses (24C) and (24D), respectively, shall be inserted after the omitted clause (24B). Both these additions are related to defining the rate of minimum tax to be charged on dealers and sub-dealers of sugar, cement and edible oil.

"(24C) The rate of tax under clause (a) of sub-section (1) of section 153 in case of dealers and sub-dealers of sugar, cement and edible oil, as recipient of the payment, shall be 0.25% of the gross amount of payments.

(24D) The rate of minimum tax under sub-section (1) of section 113 in case of dealers and sub-dealers of sugar, cement and edible oil shall be 0.25% subject to the condition that the names of such dealers and sub-dealers are appearing on the active taxpayers' lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 (XLIX of 2001)."

Second Schedule

FA 2019 has proposed that under Part IV on 'Exemption from Specific Provisions' of Second Schedule of ITO 2001, the following new clause (60E) shall be inserted with regard to the non-applicability of the provisions of Section 148 [Imports] on mobile phone brought in personal baggage:

"(60E) The provisions of section 148 shall not apply on mobile phones brought in personal baggage under the Baggage Rules, 2006.";

Seventh Schedule

FB 2019 had proposed that in the Seventh Schedule, after the omitted Rule 6B, a new Rule (6C) shall be inserted on enhanced rate of tax on taxable income from Federal Government securities. However, in the FB 2019 there is just one rephrasing in the definition of 'Additional investments' as under:

"6C. Enhanced rate of tax on taxable income from Federal Government securities …

(5) "Additional investments" means average investment made in Federal Government securities by the bank during the tax year, in addition to the average investments held during the tax year 2019.

Rule 6C (4) in FA 2019	Rule 6C (4) in FB 2019
(6C) (4) Additional income earned" **means mark-up income earned from additional investment** in Federal Government securities by the bank for the tax year.	**(6C)** (4) Additional income earned" means any average earned in addition to average amount of such income earned from investment in Federal Government securities by the bank for the tax year.

Tenth Schedule

Through the FB 2019, a new Tenth Schedule [Section 100BA] on 'Rules for persons not appearing in the Active Taxpayers' List' was proposed to be added after the Ninth Schedule to ITO, 2001.

In the FA 2019, the Tenth Schedule has been retained, however, just one addition of a proviso and explanation has been made in Rule # 3(2) as under:

"(2) In making the provisional assessment under sub-rule (1), the Commissioner shall impute taxable income on the amount of tax deducted or collected under rule 1 by treating the imputed income as concealed income for the purposes of clause (d) of sub-section (1) of section 111:

"Provided that the provision of section 111 shall be applicable on unexplained income, asset or expenditure in excess of imputed income treated as concealed income under this rule."

"Explanation. For the removal of doubt it is clarified that the imputable income so calculated or concealed income so determined shall not absolve the person so assessed, from requirement of filing of wealth statement under sub-section (1) of section 116, the nature and source of amounts subject to deduction or collection of tax under section 111, selection of audit under section 177 or 214C or subsequent amendment of assessment as provided in rule 8 and all the provisions of the Ordinance shall apply."

Amendment proposed in FB 2019 but excluded from FA 2019

In the FB 2019, it was proposed to insert a new sub-section (6A) after sub-section (6) of Section 175 of ITO, 2001 with regard to Power (of Commissioner) to enter and search premises. The new sub-section (6A) which reads as under, provided undue powers to the Commissioner to raid any premises and confiscate the undeclared gold, bearer security or foreign currency:

"**(6A)** The Commissioner shall, subject to the condition as may be prescribed, raid any premises where there is reliable information of undeclared gold, bearer security or foreign currency and confiscate the same in order to enforce any provision of this Ordinance.";

The above proposal for empowering the Commissioner was rejected by the trade and industry and it also received criticism from the Senate Standing Committee on Finance and Revenue. The Senate Committee opposed the idea of FBR to give such a power to the Income Tax Commissioner as it feared that such powers could be misused for ulterior objectives/extortion to enter offices and residences of accountants, medical service providers and others for political reasons. The Senate felt that the crux of this proposal is draconian and against the sprit of the Constitution that protect the privacy and integrity of citizens and the dignity of human life under Article 14 of the Constitution.

Hence, on the above strong resistance from all the quarters, especially from the Senate Standing Committee on Finance & Revenue, the FBR withdrew the proposal and accordingly excluded the insertion of sub-section (6A) from the promulgated FA 2019.

Other Changes made in the FA 2019

A comparison of FB 2019 and FA 2019 reveals that there are some changes in phrases/texts of various provisions of income tax as well as in the rates and other details. Some of the changes made in FB 2019 and promulgated through FA 2019 are provided as under:

Section 37

In the FB 2019 it was proposed to omit sub-section (1A) of Section 37 of ITO 2019. However, through FA 2019, it is proposed that the following slight change be made in Section 37:

"7) in section 37,—

(A) in sub-section (1A), for the words "arising on the disposal of immoveable property", the expression "under sub-sections (3A) and (3B)" shall be substituted;

Further, through FB 2019, it was proposed to insert two new sub-sections viz. (3A) and (3B) in Section 37 with regard to computing the amount of any gain arising on disposal of immovable property being an open plot (3A) and being a constructed property (3B). In the FA 2019, these insertions of 3A and 3B have been retained, however, the following slight changes have been made in the computation table:

a) For holding of open plot, the duration has been reduced from ten years to eight years

b) For holding of constructed property, the duration has been reduced from five years to four years

Finance Act 2019

(3A)

TABLE S.No. (1)	Holding Period (2)	Gain (3)
1.	Where the holding period of open plot does not exceed one year	A
2.	Where the holding period of open plot exceeds one year but does not exceed **eight years**	A x 3/4
3.	Where the holding period of open plot exceeds **eight years**	0

(3B)

TABLE S.No. (1)	Holding Period (2)	Gain (3)
1.	Where the holding period of constructed property does not exceed one year	A
2.	Where the holding period of constructed property exceeds one year but does not exceed **four years**	A x 3/4
3.	Where the holding period of constructed property exceeds **four years**	0

Finance Bill 2019

(3A)

TABLE S.No. (1)	Holding Period (2)	Gain (3)
1.	Where the holding period of open plot does not exceed one year	A
2.	Where the holding period of open plot exceeds one year but does not exceed **ten years**	A x 3/4
3.	Where the holding period of open plot exceeds **ten years**	0

(3B)

TABLE S.No. (1)	Holding Period (2)	Gain (3)
1.	Where the holding period of constructed property does not exceed one year	A
2.	Where the holding period of constructed property exceeds one year but does not exceed **five years**	A x 3/4
3.	Where the holding period of constructed property exceeds **five years**	0

Section 39

Through the FB 2019, it was proposed to insert the following new clause (1a) in Section 39:

"**(la)** subject to sub-section (3), any amount or fair market value of any property received without consideration or received as gift, other than gift received from grandparents, parents, spouse, **real brother, real sister,** son or a daughter.";

In the FA 2019, the word 'real' from both 'real brother' and 'real sister' have been omitted.

Section 82

Through the FB 2019, it was proposed to insert the following new clause (ab) in Section 82 of ITO, 2001 which relates to the 'Resident Individual':

"**(ab)** is present in Pakistan for a period of, or periods amounting in aggregate to, **ninety days or more** in the tax year and who, in the four years preceding the tax year, has been in Pakistan for a period of, or periods amounting in aggregate to, three hundred and sixty-five days or more; or";

In the FA 2019, the duration of stay of a 'Resident Individual' under Section 82 of ITO 2001, has been increased from 90 days or more [as proposed in FB 2019] to 120 days or more in the FA 2019.

New Section 192B

Through the FB 2019, it was proposed to insert the following new section (192B) after Section (192A) with regard to 'Prosecution for false statement in verification':

"**192B. Prosecution for concealment of an offshore asset. —** (1) Any person who fails to declare an offshore asset to the Commissioner or furnishes inaccurate particulars of an offshore asset and revenue impact of such concealment or furnishing of inaccurate particulars is **one hundred thousand rupees or more** shall commit an offence punishable on conviction with **imprisonment up to seven years** or with a **fine up to two hundred percent of the amount of tax evaded** or both.";

In the FA 2019, the following changes have been made in the proposed Section 192B:

a)The amount of revenue impact of concealment has been raised substantially from Rs. 100,000 or more to Rs. 10 million or more.

b) The duration of imprisonment has been reduced from 7 years to 3 years

c) The amount of fine has been changed from 200% of amount of tax evaded to Rs. 500,000.

New Section 195A

Through the FB 2019, it was proposed to insert the following new section (195A) after Section (195) with regard to 'Prosecution for non-compliance with notice under section 116A:

"**195A. Prosecution for non-compliance with notice under section 116A.** – Any person who, without reasonable excuse, fails to comply with a notice under sub-section (2) of section 116A; shall commit an offence punishable on conviction with **imprisonment up to two years** or with a **fine up to a penalty of two percent of the offshore asset not declared** or both."

In the FA 2019, the following changes have been made in the proposed Section 195A:

d) The duration of imprisonment has been reduced from 2 years to 1 year.

e) The amount of fine has been changed from 2% of offshore asset not declared to Rs. 50,000.

First Schedule Part I Division VIII

Through the FB 2019, it was proposed to omit 'Division VIII' in Part I of First Schedule to ITO, 2001, related to 'Tax on Capital Gains on disposal of Immovable Property'. However, in the FA 2019 it is now proposed to substitute 'Division VIII" with the following table:

(g) for Division VIII, the following shall be substituted, namely: —

"Division VIII

Tax on Capital Gains on disposal of Immovable Property

The rate of tax to be paid under sub-section (1A) of section 37 shall be as follows: — **S. No.**	**Amount of gain**	**Rate of tax**
(1)	(2)	(3)
1.	Where the gain does not exceed Rs. 5 million	5%
2.	Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	10%
3.	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	15%
4.	Where the gain exceeds Rs. 15 million	20%"; and

First Schedule Part III Division III

Through the FB 2019, it was proposed to substitute Clause (2) in Division III of Part III of First Schedule.

Clause (2) mentions the rate of tax to be deducted from a payment for the rendering of or providing of services [except where payment is less than Rs. 30,000 in aggregate, during a financial year] as referred to in clause (b) of sub-section (1) of Section 153 on 'Payment of goods, services and contracts [in full or part including a payment by way of advance to a resident person].

In the FB 2019, the rate of tax on such services was mentioned as '**4%** of the gross amount payable', however in the FA 2019, the rate of tax has been reduced to '3% of the gross amount payable'.

"(2) The rate of tax to be deducted from a payment referred to in clause (b) of sub-section (1) of section 153 shall be

(i) **3%** of the gross amount payable, in the cases of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in clause (133) of Part I of the Second Schedule, tracking services, advertising services (other than by print or electronic media), share registrar services, engineering services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection, certification, testing and training services".

Second Schedule Part I

The Second Schedule deals with 'Exemptions and Tax Concessions' under Section 53 of ITO 2001. In the FB 2019, it was proposed that the income derived by two institutions namely (1) Akhuwat and (2) Audit Oversight Board, shall be included in the Second Schedule (Part I) by inserting clauses (lxvi) and (lxvii).

In the FA 2019, there is addition of one more institution viz. 'Patient's Aid Foundation' by proposing insertion of clause (lxviii) in the Second Schedule (Part I).

An Insight into:

Pakistan's Economic Survey 2018-19

By Research and Publications Department, ICMA Pakistan

The Research and Publications Department has made an attempt to summarize the salient features and statistics, as provided in the Economic Survey 2018-19, especially with regard to the targets set and actual performance achieved by each sector of the economy, for the benefit of members and other readers. The information has been provided in shape of 'Infographics' for easy reference.

Priorities of the Government

- Stabilize the economy addressing immediate threats
- Improve relations with foreign countries to reap benefits
- Strengthen domestic industry
- Give a pivotal focus to marginalized people
- Convince the rich to pay their due share of taxes

The Economic Survey 2018-19 was launched on June 10, 2019 at Islamabad by Dr. Abdul Hafeez Shaikh, Advisor to the Prime Minister on Finance & Revenue

Growth Indicators

OVERALL GDP GROWTH	AGRICULTURAL GROWTH	INDUSTRIAL GROWTH	GROWTH IN SERVICES
3.29%	0.85%	1.40%	4.70%
[Target: 6.2%]	[Target: 3.8%]	[Target: 7.6%]	[Target: 6.5%]
[Last Year: 5.7%]	[Last Year: 3.81%]	[Last Year: 5.80%]	[Last Year: 6.43%]

Investments

TOTAL INVESTMENTS	FIXED INVESTMENT	PUBLIC INVESTMENT	PRIVATE INVESTMENT	NATIONAL SAVINGS
15.4%	13.8%	4%	9.8%	10.7%
[Target: 17.2%]	[Target: 15.6%]	[Target: 4.8%]	[Target: 0.8%]	[Target: 13.1%]

ICMA Pakistan

Deficits

OVERALL BUDGET DEFICIT	OVERALL FISCAL DEFICIT	CURRENT ACCOUNT DEFICIT	TRADE DEFICIT
Rs.1.9 trillion	Rs. 1922.5 billion	US$ 11.59 billion	US$ 32 billion
[5% of GDP]	[5% of GDP]	[4.03% of GDP]	[10.1% of GDP]

The above figures are the same as published in the Economic Survey 2018-19

Revenues

TOTAL REVENUE	TOTAL TAX REVENUE	TOTAL NON - TAX REVENUE	FBR TAX RECEIPTS
[July 18 – March 19]	[July 18 – March 19]	[July 18 – March 19]	[July 18 – March 19]
Rs. 3,583.7 billion	Rs. 3,162.1 billion	Rs. 421.6 billion	Rs. 2,704.5 billion
[9.3% of GDP]	[8.2% of GDP]	[1.1% of GDP]	[11.6% of GDP]
[Last Year: Rs. 3,582.4 billion or 10.3% of GDP]	[Last Year: Rs. 3,076.2 billion or 8.9% of GDP]	[Last Year: Rs. 506.2 billion or 1.5% of GDP]	[Last Year: Rs. 2,627.6 billion]

Structure of Federal Tax Revenue

NET TAX REVENUE	NET DIRECT TAXES	NET INDIRECT TAXES
[July 18 – April 19]	[July 18 – April 19]	[July 18 – April 19]
Rs. 2,976 billion	Rs. 1,067.8 billion	Rs. 1,908.3 billion
[Same period last year: Rs. 2922.5 billion]	[Same period last year: Rs. 1,096.4 billion]	[Same period last year: Rs. 1,826.1 billion]

Expenditures

TOTAL EXPENDITURE	CURRENT EXPENDITURES	DEVELOPMENT EXPENDITURES	PSDP
[July 18 – March 19]	[July 18 – March 19]	[July 18 – March 19]	[July 18 – March 19]
Rs.5,506.2 billion	Rs. 4,798.4 billion	Rs. 655.9 billion	Rs. 578.5 billion
[14.3% of GDP]	[12.4% of GDP]	[34% negative growth]	[88% share in Development Expenditure]
[Last Year: Rs. 5063.3 billion or 14.6% of GDP]	[Last Year: Rs. 4,075.4 billion or 11.8% of GDP]	[Last Year: Rs. 993.3 billion or 23.6% positive growth]	[Last Year: Rs. 931.4 billion]

ICMA Pakistan

Money & Credit

NET GOVERNMENT BORROWING	BORROWING FOR BUDGETARY SUPPORT	BORROWING FROM STATE BANK [SBP]	CREDIT TO PRIVATE SECTOR
[July 18 – April 19]	[July 18 – April 19]	[July 18 – April 19]	[July 18 – April 19]
Rs. 908 billion	Rs. 1,073 billion	Rs. 3.204.7 billion	Rs. 580.9 billion
[Same period last year: Rs. 813.6 billion]	[Same period last year: Rs. 850 billion]	[Same period last year: Rs. 1,316.1 billion]	[Same period last year: Rs. 498.5 billion]

Trade & Payments

EXPORTS	IMPORTS	REMITTANCES	FOREIGN INVESTMENT
[July 18 – April 19]	[July 18 – April 19]	[July 18 – April 19]	[July 18 – April 19]
US$ 20.09 billion	US$ 44.03 billion	US$ 17.875 billion	US$ 1.376 billion
[Target: US$ 28 billion]	[Target: US$ 56.5 billion]	[Target: US$ 21.2 billion]	[Dropped by 51.7%]
[Same period last year: US$ 20.48 billion]	[Same period last year: US$ 46.30 billion]	[Same period last year: US$ 16.482 billion]	[Same period last year: US$ 2.849 billion]

Public Debt

TOTAL PUBLIC DEBT	DOMESTIC DEBT	EXTERNAL DEBT	DEBT FROM IMF
[By end of March 2019]	[By end of March 2019]	[By end of March 2019]	[By end of March 2019]
Rs 28,607 billion	Rs 18,171 billion	Rs 9,625.7 billion	Rs 811.2 billion
[Last Year: Rs. 24,953 billion]	[Last Year: Rs. 16,416 billion]	[Last Year: Rs. 7,795.8 billion]	[Last Year: Rs. 740.8 billion]

Inflation

CPI INFLATION	CORE INFLATION	WHOLESALE PRICE INDEX [WPI]	SENSITIVE PRICE INDICATOR [SPI]
[Average July 18 - April 19]	[Average July 18 - April 19]	[Average July 18 - April 19]	[Average July 18 - April 19]
7 percent	8.1 percent	11.7 percent	4 percent
[Last Year: 3.8 percent]	[Last Year: 5.6 percent]	[Last Year: 2.8 percent]	[Last Year: 0.8 percent]

Federal Budget 2019-20
Infographics

By Research and Publications Department, ICMA Pakistan

Key Budget Targets for FY 2019-20

External Deficit	$6.5 Billion
Tax-to-GDP Ratio	12.6 Percent
FBR Tax Revenue	Rs.5,555 Billion
Minimum Monthly Salary	PKR 17,500
Defence Budget	Rs.1,150 Billion
Budget Deficit	Rs.3,560 Billion
Inflation	5 -7 Percent

Budget Allocation for Projects

National Programmes	Rs.1,863 Billion
Total Size of PSDP	Rs 1,613 Billion
Building Dams and Drainage	Rs.70 Billion
Diamer Bhasha Dam	Rs.20 Billion (Land Acquisition)
Mohmand Dam	Rs.15 Billion (Ongoing Construction)
Road / Rail Networks	Rs.200 Billion
Energy	Rs.80 Billion
Dasu Hydro Power	Rs.55 Billion (Construction)
Human / Knowledge Economy Development	Rs.58 Billion
Agriculture Sector	Rs.12 Billion
Quetta Development Package	Rs.10.4 Billion
Karachi Development Package	Rs.45.5 Billion

Budget Estimates FY 2019-20

Total Outlay of Budget	2019-20 = Rs. 8,238.1 billion	2018-19 = Rs. 5,932.5 billion
Resource Availability	2019-20 = Rs. 7,899.1 billion	2018-19 = Rs. 4,917.2 billion
Net Revenue Receipts	2019-20 = Rs. 3,462.1 billion	2018-19 = Rs. 3,070.4 billion
Federal Gross Revenue	2019-20 = Rs. 6,717 billion	2018-19 = Rs. 5,661 billion
Total Tax Revenue	2019-20 = Rs. 5,822 billion	2018-19 = Rs. 4,889 billion
FBR Tax Revenue	2019-20 = Rs. 5,555 billion	2018-19 = Rs. 4,435 billion
Provincial Govt. Share in Total Revenue	2019-20 = Rs. 3,254.5 billion	2018-19 = Rs. 2,590.1 billion
Federal Govt. Net Revenues	2019-20 = Rs. 3,462 billion	2018-19 = Rs. 3,070 billion
Net Capital Receipts	2019-20 = Rs. 831.7 billion	2018-19 = Rs. 443.1 billion
External Receipts	2019-20 = Rs. 3,032.3 billion	2018-19 = Rs. 1,118.0 billion
Overall Expenditure	2019-20 = Rs. 8,238.1 billion	2018-19 = Rs. 5,932.5 billion
Expenditure on General Public Service	2019-20 = Rs. 5,607.0 billion	2018-19 = Rs. 3,340.4 billion
Development Expenditure	2019-20 = Rs. 85.8 billion	2018-19 = Rs. 180.2 billion
Overall PSPD Size	2019-20 = Rs. 1,613 billion	2018-1 9= Rs. 1,650 billion
Federal PSPD	2019-20 = Rs.701 billion	2018-19 = Rs.800 billion
Prime Minister's Youth Skill Dev.	2019-20 = Rs. 5 billion	2018-19 = Rs. 10 billion
Bank Borrowing	2019-20 = Rs. 339 billion	2018-19 = Rs. 1015.3 billion
Fiscal Deficit	2019-20 = 7.1% of the GDP	2018-19 = 7.2% of the GDP

Pros and Cons of Tax Amnesty Scheme

Pakistan is an under-developed country with weakened State departments. Federal Board of Revenue (FBR) is one of those weakened and under-performing department of the State. The responsibility of the Federal Board of Revenue (FBR) is to ensure collection of tax from persons liable to pay taxes in terms of Customs Duty, Federal Excise Duty, Income Tax and Sales Tax.

The Federal Board of Revenue has been successful in collection of taxes from existing tax net; however, it has totally failed to achieve its budgetary targets because it failed in identifying new source of revenue in terms of potential taxpayers.

For repayments of loan to IMF, it is unavoidable for our country to identify new taxpayers in order to broaden the tax base and generate revenue from new sources. For this, in the last five years, the FBR in collaboration with the Federal Government has announced three amnesty schemes. The idea behind those amnesty schemes was to broaden the tax base and generate the revenue from new sources.

It has been observed that the current amnesty scheme is one of the most successful amnesty schemes announced by the Government. The reason behind this success is the Benami Transactions (Prohibition) Act, 2017 that has come up with provisions of huge penalties and imprisonment

Ammad Ahmed Siddiqui, ACMA

Due to the budget deficit, the Government had yet again announced amnesty scheme under Asset Declaration Ordinance, 2019 for declaration of undeclared assets/ benami assets, undeclared sales and expenditures.

It has been observed that the current amnesty scheme is one of the most successful amnesty schemes announced by the Government. The reason behind this success

is the Benami Transactions (Prohibition) Act, 2017 that has come up with provisions of huge penalties and imprisonment.

For the first time in Pakistan, people are fearful and are more concerned about their undeclared assets as the Prime Minister himself and the FBR Chairman has warned that the FBR will go after the unregistered taxpayers and benami assets after the closing date of amnesty scheme i.e. 30 June 2019. The Government has provided 'more than fair' opportunity to avail the current amnesty scheme and declare the undeclared/ benami assets, sales and expenditures by making payment of prescribed tax.

Pros and Cons of the Tax Amnesty Scheme:

Let's discuss some of the Pros and Cons of Current Tax Amnesty Schem

Pros:

a) People are more vigilant, fearful and concerned because of Benami Transactions (Prohibition) Act, 2017

b) Tax base is increasing in real terms due to the fact that people owning benami assets are now declaring such assets after payment of tax.

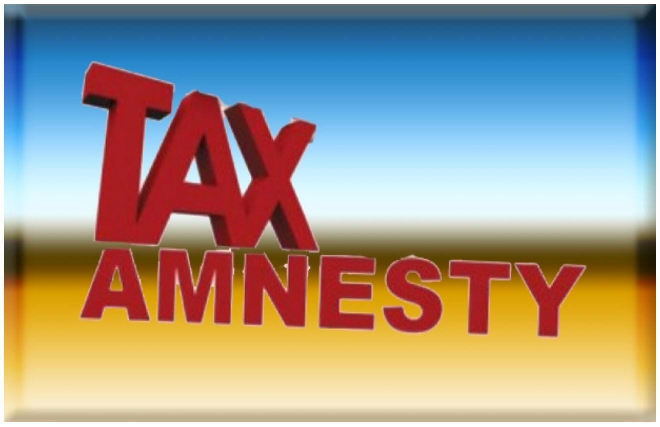
c) The persons availing the scheme are liable to submit or revise their wealth statement for the Tax Year 2018.

d) The size of the documented economy is increasing. Undeclared and benami assets are becoming the part of formal and documented economy.

e) Non-resident Persons are also benefiting from current amnesty scheme by declaring their undeclared and benami assets.

g) Percentage of tax levied in the scheme is quite reasonable and affordable for the taxpayers.

h) Resident taxpayers who availed the scheme shall file their returns and wealth statements regularly in future otherwise, they can easily be identified.



i) Future transactions of buying and selling of assets declared through amnesty scheme can easily be traced.

j) Heavy and out of the box generation of tax for a short period of time.

Cons

a) Existing and compliant taxpayers always have negative comment on amnesty scheme as such schemes provide cheap clearance chit to non-compliant persons.

b) Frequent announcement of amnesty schemes gives faith to the people to keep some of their assets undeclared as such schemes may also be announced in future. It has been observed that the persons who availed last amnesty scheme are once again availing the current scheme and declaring undeclared assets.

c) It would be considered only a revenue generation tactic of the Government if the FBR did not go after the non-declarants after the closing date to avail the amnesty scheme.

Conclusion

Amnesty Scheme may prove to be a useful tool to increase the size of economy. It also provides instant revenue to shorten the budget deficit. The main purpose of current amnesty scheme is to provide an opportunity to people of Pakistan to become part of taxation system and avoid the harness of Benami Transactions (Prohibition) Act, 2017.

However, if no action is taken against the non-complaints in accordance with Benami Transactions (Prohibition) Act, 2017 the usefulness of amnesty scheme will become questionable.

It is also pertinent to mention here that the current capacity of FBR is not sufficient to deal with a large number of taxpayers. In order to overcome the fear of mishandling of taxpayers in the hands of insufficient FBR resource, it is necessary and suggested to make FBR completely autonomous body that shall be free to appoint the talent it needs to collect revenue and build the back bone of country's economy. We hope that the current amnesty scheme will be beneficial to both the taxpayers and our beloved country.

About the Author: *The author is an associate member of the institute, currently working as Supervisory Senior - Tax at KPMG Taseer Hadi & Co. Author has more than 4 years of experience in handling matters of direct taxation of individuals and large corporate entities.*

Trade Potential of Rice Industry in the Context of CPEC

By Mukesh Kumar & Azeema Begum

Overview

While providing basic ingredient to human and raw material for industries, agriculture sector plays significant role in the socio-economic development of country. It is considered as primary source of food supply and employment in rural areas. In Pakistan, agriculture sector contributes 19.8 percent in GDP while providing employment opportunities to 42.3 percent of total labor force (ESP, 2017-18). The main agriculture products are cotton, rice, wheat, fruits, vegetables sugarcane, fish and these products have major share in exports to a number of countries.

In international market, Pakistan is losing its ground from last few years in major agricultural products such as textile, rice and leather which comprise more than 70 percent in exports. The prices of these agriculture products are lower in global market as compared to Pakistan. Even; the cost of inputs are also higher due to heavy taxation on those products which are used in agriculture (ESP, 2017-18). Pakistan has produced 6.7 million metric tons rice of which around 4.2 million metric tons has been exported worth of $ 2 billion during 2018 while contributing 8 percent of total world rice trade.

China and Pakistan has long-term friendship as well as trade relation. Therefore; China has decided to invest in Pakistan under its One Belt One Road initiatives through undertaking of CPEC. CPEC covers a massive infrastructure development, power, energy and research and development projects which improves bilateral connectivity between countries. The projects of CPEC have been extended to cover majorities of the cities of Pakistan. Many areas of co-operation have been identified such as agriculture, industrial clusters, Special Economic Zones(SEZs), tourism, financial and human resource development. Agriculture has been considered to be one of the main concern in CPEC as long term plans (LTP) which covers wide-ranging engagement across different sectors. China is already planning to invest up to $62 billion till 2030 in energy and infrastructure including ports, power, road and railways under CPEC projects. CPEC has promised to transfer advanced technology, Infrastructure, upgrading of existing technology, modern practices and extensive co-operation between farming enterprises which will bring prosperity not only for agriculture sector but also for rice industry.

Along the route of CPEC, nine Special Economic Zones are being established where foreign companies will invest in factories, warehouse and logistics centers that will definitely support and increase exports of agricultural product from Pakistan. Improved transportation facilities allow speedy and low cost access to domestic and international market while promoting inter-regional and international trade therefore; CPEC has indirect impact on agriculture and rice industry as well.

As many evidences have already proved direct link between infrastructures development, sustained output growth and trade (Aschauer, 1989; Canning, 1998; Calderon and Chong, 2004; Pinstrup-Andersen and Shimokawa, 2006). While creating backward and forward linkage, agriculture sector has direct and indirect benefits of CPEC. CPEC includes a network system of transport and trade-related infrastructure programs which are very crucial for exports of agricultural products (Ahmed and Mustafa, 2014). The inclusion of agriculture sector in Long-Term Plan of CPEC offers significant opportunities to reduce its trade deficits with China by exporting more value added agriculture goods and through tapping growing demand for

foods in China. Infrastructure development are categorized into capital intensive such as roads, bridges, electrifications etc and institutional infrastructures such as credit institutions, agriculture research and knowledge. These all factors determine the nature and magnitude of agriculture production. Proper infrastructure development enhances farm productivity and decrease farming costs which accelerates agricultural growth. According to World Bank Logistics Performance Index (LPI), Pakistan lags far behind from India, Vietnam and Thailand on the logistic competence and international shipment. Pakistan is ranked 122 out of 160 countries in 2018 with the score of 2.49. This means that Pakistan is not capable of arranging competitively price shipment for export and quality of logistic services. CPEC has brought an opportunity to improve our logistics and transportation facilities that may increase LPI of Pakistan in coming years.

Outlook of Rice Industry

According to Economic survey of Pakistan, 2017-18, there is 3.1 percent contribution of rice industry in the value addition of agriculture which accounts 0.6 percent of Gross Domestic Product. In term of variety, three major types of rice are produced around world which are Indica (long grain), Japonica (round grain) and Javanica (medium grain) whereas; Pakistan produces Indica. The rice can be divided into two main categories such as Basmati and Non-Basmati. The quality of Basmati rice is considered supreme quality due to its good aroma, taste, texture and elongation. Most of the Basmati varieties are grown in Punjab region whereas; Non-basmati varieties are grown in Sindh and Balochistan. Rice is second main stable food crop after wheat and second major export product after cotton. The span of cultivation area of rice has increased to 2899 thousand hectares in 2017 as compared to 2724 thousand hectors of the previous year.

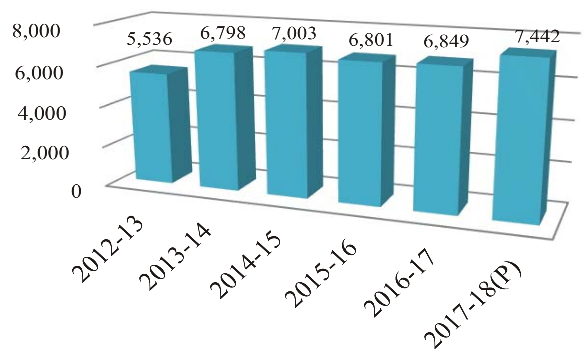
Table:1 Area, Production and Yield of Rice

years	Area (000 Hectare)	% Change	Production (000 Tons)	% Change	Yield (Kgs/Hec.)	% Change
2012-13	2,309		5,536		2,398	
2013-14	2,789	20.8	6,798	22.8	2,437	1.6
2014-15	2,891	3.7	7,003	3	2,422	-0.6
2015-16	2,739	-5.3	6,801	-2	2,483	2.5
2016-17	2,724	-0.6	6,849	0.7	2,514	1.2
2017-18(P)	2,899	6.4	7,442	8.7	2,514	2.1

Source: Economic Survey of Pakistan 2017-18

90 percent of total rice is produced in Punjab and Sindh due to suitable agro-based climate and social condition. Punjab produces 100 percent of the Basmati rice where as the production area are located between Ravi and Chenab rivers in Punjab. IRRI rice is grown in both provinces Sindh and Punjab. Rice yield has grown significantly due to higher yielding basmati varieties and long grain hybrids have received acceptance among farmers. Better agronomic practices, more spraying and resistant seed varieties have also facilitated to reduce the incidence of bacterial leaf blight and significantly increased rice production. The rice production has recorded historically high level of 7442 thousand tons and increased up to 8.7 percent as compared to previous year. The cultivated area of rice has been increased due to higher domestic prices, availability of inputs on subsidized rate, good advisory and government support and increase in export, which have made rice cultivation more attractive for farmers.

Figure:1 Rice Production (000 Tons)



At market level, there is significant government intervention in many rice producing countries such as India, China and Vietnam. Generally, governments provide facilities in terms of investment and subsidies if agriculture and infrastructure which help rice industry in becoming more competitive however, these support mechanism raise the prices for consumer.

Table: 2 Structure of Rice Industry in Pakistan

	No of firms
Less than 50 employees	76
50 to 100 employees	9
More than 100 employees	22
Total	107

Source: Trademap, Dun & Bradstreet (JCR-VIS Sector update, 2017)

On the other hand, rice industry in Pakistan is based on market oriented principles. There is less intervention by government and price level is determined by demand and supply of rice (JCR-VIS, 2017). According to JCR-VIS update, 2017, total 107 companies are operating in domestic market in which 76 firms having less than 50 employees. Supply-side management and proactive export marketing are the main factors which determine export of rice from Pakistan.

The Pakistan is ranked fourth largest rice exporter in terms of quantity which contribute second largest share in export earnings after cotton. In global trade of rice. India and Pakistan are close competitor of each other because both countries are

Table: 3 Top Exporting Countries

Rank	Exporting Country	Amount Of Rice Exported (2018/19), in 1000 metric tons
1	India	125,000
2	Thailand	10,300
3	Vietnam	7000
4	Pakistan	4,250
5	United States	3,250
6	Burma	3000
7	China	1,900
8	Combodia	1300
9	Brazil	850
10	Uruguay	800

Source: www.statista.com

producing and exporting basmati and non-basmati rice. India is the largest rice exporter country which exported 10,300 thousand metric tons in 2016-17.

In 2018, Pakistan has exported around 4250 thousand metric tons of rice, reaching the level of two billion dollar and recorded a healthy growth in rice exports of 27 percent as compared to previous fiscal year. On the other hand, the export of Basmati rice has dropped significantly during 2012 to 2018. The basmati requires more research as compared to other varieties for increasing its yield, protection from disease, and enhancing its ability to compete with other varieties. Despite of its increasing export share of rice, the government is not providing any incentives for research and development which the main cause of under-performance of the sub-sectors. Moreover, due to absence of inducement schemes, subsidies and government regulation, exporters are not able to match world prices which are being offered by Indian exporters in global rice market. Being the biggest competitor of Pakistan, India is getting benefits from support prices and subsidies which are being provided by government in rice farming. One good thing is that, no export permit is required to export of rice from Pakistan. However, the exporters are required to register with Rice Exporters Association of Pakistan (REAP) otherwise they are not allowed to export. REAP members are given a certificate with membership number which exporters use at the time of export.

Table:4 Export of Rice From Pakistan - 2012 to 2018

Year	Basmati	Non-Basmati	Total Value Us$)
2012-13	626,691,715	1,210,894,761	1,837,586,476
2013-14	846,240,670	1,051,579,598	1,897,820,268
2014-15	681,548,911	1,167,152,158	1,848,701,069
2015-16	455,249,000	1,405,068,000	1,860,317,000
2016-17	426,539,000	1,180,530,000	1,607,069,000
2017-18	524,699,649	1,475,891,318	2,000,590,967

Source: Quality Review Committee (QRC) & Trade Development Authority of Pakistan (TDAP)

As far as the export of Basmati rice are concerned; Pakistan has comparative advantage in the production of Basmati rice. Despite of total growth in rice export, the export of Basmati rice way is showing a downward trend in demand in global market due to higher competition from cheaper Indian Basmati rice. As, prices of basmati are determined by cost of production, competitiveness at farm level and competitiveness of export supply chain. Pakistani exporters are facing high cost from farm to processing and transportation, old variety of seeds with low level of yield and increase cost of fertilizer which increases prices of Pakistani Basmati rice as compared to Indian Basmati rice. Furthermore, due to lack of facilities in research new seed varieties have not been developed which could confront against bacterial attacks. In the absence of government regulation, farmers are also facing high fertilizer prices in fertilizer market. Since the disbanded of Rice Export Corporation during 1990s, rice traders have taken the benefits of market liberalization and have gained major share in global rice trade. However export traders comprises of a large number of small firms that are mostly owned by family and accustomed to traditional trading practices.

Potential of Rice Industry in the context of CPEC

China and Pakistan have developed bilateral economic and trade relation in 1963 while signing first bilateral trade agreement. After this, Pakistan and China have signed number of agreements such as Free Trade Agreement in 2006 and FTA in service in 2009. China Pakistan Economic Corridor(CPEC) is a result of strong and long-term friendship between both countries that has been signed in May 2013 and initiated in 2015. In agriculture, China is particularly interested to explore areas like cotton productivity, efficient irrigation and post-harvest infrastructure along the route of CPEC which opens a doorway to enhance agricultural export to China. Being highly populated country with 1.3 billion people, China's increasing demand for food is also creating opportunities for food exporting countries however, it is putting a floor under the world prices of all agricultural commodities which benefits every farmers. China is the world largest rice consumption country which offers a huge potential for rice industry around world. In 2017-18, China has consumed 1,427,000 million tons rice which is approximately 30 percent of total global rice production. Around 65 percent of the Chinese population consume rice as staple foods.

China is also one of the largest importers of rice and it is importing 55 percent of its total imported rice from Vietnam, 26.8 percent from Thailand, 5.5 percent from Cambodia and 5.1 percent from Pakistan. From Pakistan, rice export to China has suffered last year due to low demand, insufficient marketing, logistic issues and competition from India, Thailand, Indonesia and Vietnam. These rice exporting countries are enjoying relaxed tariff from China which is the area where Pakistan needs to focus on the negotiator on free trade agreements for exports including rice. There are billion dollars investment opportunities for rice industry to fulfill growing demand of foods. Pakistan must take any initiative to talk with China in the duty regime like ASEAN countries that Pakistan could target support rice industry to capture the largest food markets. Government policies have also direct impact on export of rice for instance high input cost, devolution of currency and excessive taxes on rice sector which have made rice industry completely uncompetitive in world market particularly against India.

Kenya has been the largest buyer of non basmati rice and Pakistan has exported 431,938 metric tons of rice amounting of $ 165 million during July 2017 to June 2018, whereas, China is

Table:5 Top Ten Rice Consumpt ion and Importer Country

Country	Rice Consumption (2018) in Thousand metric tons	Country	Amount of Rice Imported (2018/19), in 1000 metric tons
China	142,700	China	4,500
India	97350	Philippines	2,300
Indonesia	37400	Nigeria	2,200
Bangladesh	35200	European Union	2,000
Vietnam	22100	Bangladesh	1,600
Philippines	13000	Cote d'Ivoire	1,600
Thailand	11170	Iran	1,400
Barma	9900	Iraq	1,300
Japan	8450	Saudi Arabia	1,300
Brazil	8100	Senegal	1,250

Source: www.worldatlas.com & www.statista.com

Table:6 Top Providers of Chinese Imported Rice (2017)

Rank	Country	US $	% of China's Total Rice Imports
1	Vietnam	1.02 billion	55.9
2	Thailand	544.1 million	29.8
3	Cambodia	101.1 million	5.5
4	Pakistan	93.6 million	5.1
5	Laos	32.8 million	1.8
6	Myanmar	31.8 million	1.7
7	Japan	1.1 million	0.06
8	Russia	962,000	0.05
9	Taiwan	314,000	0.02
10	South Korea	208,000	0.01

Source: (www.worldstopexports.com)

third largest buyer of non-basmati rice. Pakistan has exported 271,441 metric tons of rice amounting of S 106, million during July 2017 to June 2018.

Despite of many years of negotiations in the context of CPEC; Pakistan has not succeed in declining tariffs at par with ASEAN countries. Even, negotiations delayed after China has refused unilateral concessions; rice tariffs becoming zero-rated are unwelcoming. On the other hand, to capture largest rice market it requires production capacity to increase from short to medium term period.

In terms of snag; there are many hitches with the exports of rice such as poor quality, international prices, failure to develop brands, low standard packaging, declining market share in global market and lack of research and development (R&D) facilities. Due to which Pakistan is unable to fulfill the growing demand of rice in neighboring countries including China. The Industry must adopt more strategic and brand based approaches to rice exporting.

Although China is importing non-Basmati rice from Pakistan, exporters are interested in exploring the regional market trade to boost Basmati export as well. Now, Iran and China are two main potential importers and consumers of Basmati. According to exporters, there is huge potential exists for the expansion of Basmati export to China, because there is no technical barriers to trading rice with China. This opportunity can be availed through aggressive marketing, branding and business-to-business interaction among traders which can wedge their ways into Chinese market. With time the industry should adopt more strategies and brand-based approaches to rice exporting.

Conclusion

So, these facts and statistics highlight that rice industry has major contribution in exports as second largest export earning item in agriculture after cotton however, Pakistan has not succeeded in grabbing the opportunities of CPEC for rice. It is most important to reformulate detail policy initiatives for increasing of production capacity in relation with CPEC which bring positive consequences in long term. Furthermore; CPEC would help to increase productivity and efficiency of crop while using higher yield seed varieties and increasing mechanization. Recently one of the world leading hybrid seed production company of China, Yuan Long Ping High-Tech Agriculture Co Ltd has practiced a month-long program in few cities to develop heat resistant rice seed variety. This would help to increase the capacity of rice production of rice in all over Pakistan. This company has also provided training and field management facilities and skills to local agriculture research institutions.

Besides this, the cultivation area of non-Basmati is located along with CPEC route therefore; Pakistan has opportunity to increase rice production that may easily be exported to China. The major food exporting countries such as Thailand, Malaysia, Vietnam to China are geographically at more distant to China as compared to Pakistan. India is also our competitor however; due to its detachment from BRI initiative makes it less likely a challenger. Therefore; Pakistan has great chance to avail these opportunities. Moreover, corporate and contract farming with China can also increase the productivity through technology transfer, skill and knowledge's and modern processing machinery and practices. The developments of nine agricultural zones along CPEC have also been envisaged. These zones are expected to bring collaboration and innovation in agriculture sector while developing clusters and infrastructure which could also facilitate rice industry to enhance its potential. The government should remove tariff and non-tariff barriers for agriculture trade with China and renegotiate free trade agreements for better returns on exports of rice. The role of private sector is also very crucial that's why the private sectors should develop more partnership and explore new market opportunities in China.

Pakistan's Top Ten Rice Exporting Countries (July 2017 to June 2018)

Country	Non-Basmati (Total Value US$)	Country	Basmati (Total Value US$)
Kenya	165,124,604	UAE	8 9,366,966
Madagascar	120,193,585	UK	6 4,302,837
China	106,906,541	Belgium	4 9,550,205
Indonesia	107,503,065	Oman	3 7,791,134
Tanzania	6 3,699,271	KSA	31,206,913
Afghanistan	6 2,684,379	Italy	2 8,236,813
Senegal	3 9,973,931	Netherlands	2 2,744,079
Ivory Coast	4 1,071,890	Yemen	2 0,144,207
Benin	4 2,546,320	Spain	2 1,095,960
UAE	4 2,267,078	Australia	1 4,414,038

Source: Quality Review Committee (QRC) & Trade Development Authority of Pakistan (TDAP)

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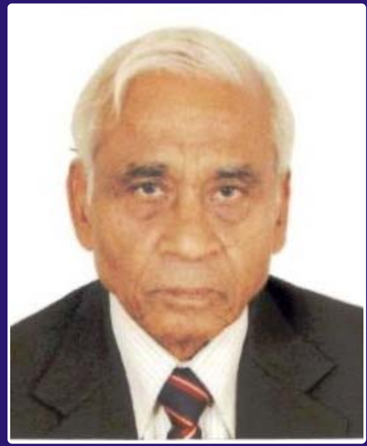
CPEC – Shadows of Doubts on Reality



Prof. Saeed Ahmad Siddiqui

It is the opinion of some of the critiques of CPEC (China Pakistan Economic Corridor) including America, India and other opponents that conspiracy has been launched to get China rid of the CPEC project. It is absolutely impossible. In other words, it can be said that under the new game going on, may be one of the kinds of conspiracy but not possible to be successful. The original designer of CPEC is China. Without the investment of China, this project can't stand. The country that conceived, designed and invested, if deleted, the project would basically be shattered into pieces. Nevertheless, for making it more strong and fruitful, we can add more sugar like investment by Saudi Arabia but it is not possible that the country which initiated be ignored. The investment coming from Saudi Arabia and other allied countries planning for investing in the project is a good sign and should be encouraged. China also welcomes it but not as a partner because there is a hell of difference between investor and partner.

A mutual agreement was done between China and Pakistan in 2014 pertaining to CPEC project therefore, if any country or party to be the new partner of the project, the new agreement will have to be signed. Nevertheless, no proposal for third partner is there in consideration. Only two partners; China and Pakistan, will go ahead with the project. Other countries can participate in the project as investor and for this purpose also Pakistan will have to acquire the permission from China. It is therefore, obvious that recent Saudi investment could have not been possible without taking China in confidence. Nevertheless, reservations may be there. China can have the reservations that another game may be under played behind the veil of investment.

CPEC begins from Gawadar but does not end at Kashghar. Gawadar is takeoff point and is also strategically important. CPEC has to go to Europe through Middle East and Africa otherwise CPEC would be of no use for China. China is investing in CPEC for the purpose of reaching to World Market with a short cut. Whichever the countries joining CPEC as investor would widen it and obviously Pakistan would also be benefitted. A question creeps in the mind that are the Gulf States including Saudi Arabia interested in CPEC just for economic gain?

It is the open secret that the Gulf States are under the American influence because they are old kingdoms therefore, it is obvious for them to remain under this influence. Exploiting this weakness, America has been taken and still taking undue advantage of using them against Iran. It may, no doubt, be the cause of sharing CPEC by these countries with America. It should be noted that joining CPEC by Gulf States also their economic need. Dependence on oil has been reduced in Gulf States therefore, all these economies are in search of new income sources and they think that investing in Pakistan through CPEC would be beneficial for them because no other project in the world today is larger and beneficial than CPEC. There is another angle that due to Yaman, Iran, Daaish and above all dual American Policy, Gulf States are feeling them highly vulnerable. It is therefore, very possible that they want to be the member of this new block through joining CPEC comprising China, Russia, Spain, Turkey and Central Asian States. Iran is also the friend of this block because Iran is protected so far because China and Russia both have equipped Iran with Misael and Nuclear Technology while both these countries, during sanction, had been purchasing oil from Iran. In this background, visit of Shah Salman first time first time has been strategic point.

The first phase of CPEC has been completed and the second one is about to be launched. In other words, this project is moving ahead. It has been realized that despite untiring efforts, America has not been successful in stopping the high flight of CPEC and secondly, it is going to vacate Afghanistan. Under this scenario, America wants to join CPEC so that it may keep her existence in this region.

It is open secret that America has absolutely been against CPEC and often speaks keeping Indian tongue in her mouth. Is it not possible that being the part of CPEC, it can do against this project? Yes, it is possible but keeping in mind this fear Pakistan should not oppose American investment in CPEC otherwise differences may be created between the two friendly countries. Pakistan can't afford to lose old and trustworthy friend just because of this doubt. It should also not be forgotten that America and China are friendly foe of one another. China's biggest investment is in America while America is the biggest debtor of China.

Presently, CPEC has assumed the great importance for the entire world. For turning this importance in our favor, Pakistan will have to play her cards cautiously and carefully. CPEC is the boon of Allah the Almighty on Pakistan for which we have not done any diplomacy. Nature has bestowed upon us a precious gift. CPEC has now become a magnet to which the entire world is being attracted. Foreign investment that comes from any country will go in favor of Pakistan. Pakistan, at this stage, should not be the cause of differences amongst any countries. Pakistan has always preached peace. We have brought America with China, Playing the role of mediator for making the relationship of Saudi Arabia with Iran congenial. Apart from it, title of CPEC is peace and prosperity which is possible through joint efforts only.

About the Author: ***Prof. Saeed Ahmad Siddiqui*** *is the author of 50 books on Economics and related subjects. He has taught in University of Karachi and IBA.*

Economy Watch

By Research and Publications Department, ICMA Pakistan

IMF releases first tranche of $991.4m under EFF

Pakistan's foreign exchange reserves have touched over US$ 15 billion after receiving first tranche worth $991.4 million from the International Monetary Fund (IMF) under the under Extended Fund Facility (EFF). IMF first tranche is equivalent to SDR 716 million. IMF's Executive Board on July 3, 2019 had approved a three-year bailout package worth $6 billion for Pakistan. Pakistan would receive $6 billion from the IMF in next three years. Meanwhile, the Asian Development Bank (ADB) has planned to support Pakistan with indicative lending of up to $10 billion for various development projects and programs during the next five years. The ADB plans to provide about $2.1 billion out of $3.4 billion funds to support Pakistan's reform and development programs during FY 2019-20.

Inflation almost doubled in Pakistan: ADB

The Asian Development Bank (ADB) has said that Pakistan's GDP growth had deteriorated to 3.3 percent in fiscal year 2018-2019, which was lowest rate in last 8 years. According to ADB Report, inflation in Pakistan almost doubled from 3.8 percent in the same period of FY2018 to 7.2 percent in FY2019. Pakistan's GDP growth remained lower as compared to other countries of South Asia, whereas Indian GDP growth is projected at 7 percent during FY2019 and growth in Bangladesh accelerated from 7.9 percent in FY2018 to 8.1 percent in FY2019 with faster growth in industry and services. Similarly, GDP growth in Nepal accelerated from an upwardly revised 6.7 percent in FY2018 to 7.1 percent in FY2019. However, Pakistan's GDP growth recorded at only 3.3 percent in Fy2019.

Exchange Rates for Currency Notes
(as on July 22, 2019)

Countries	Selling (Rs.)	Buying (Rs.)
U.S.A.	159.60	160.60
U.K.	200.50	202.00
Euro	179.50	181.00
Japan	1.4500	1.4900
Saudi Arabia	42.50	42.80
U.A.E.	43.45	43.75

Pakistan to receive $3.4 billion Loan from ADB in Budgetary Support

Adviser to Prime Minister on Finance Dr Abdul Hafeez Shaikh on June 16, said the Asian Development Bank (ADB) will loan Pakistan $3.4 billion for budgetary support. Dr Abdul Hafeez Sheikh met ADB Director General Werner Leipach in Islamabad where they discussed the economic condition of the country and matters relating to ADB's upcoming operations in Pakistan.

According to the finance adviser, $2.1 billion will be released this fiscal year (FY), starting in the first quarter of FY 2019-20, which will help the reserve position and the external account. Dr Abdul Hafeez Sheikh further said, under the NFC Award (National Finance Commission), the centre will receive Rs2,400 billion, while the government will pay Rs2,900 billion loans after the recovery of Rs.3,600 billion from tax and non-tax payers.

"The remaining Rs700 billion is not enough to run the federation," he added. Earlier this week, the government unveiled a Rs7,022 billion austerity budget for the fiscal year 2019-20, setting ambitious tax collection targets to stabilise a faltering economy.

Country's Exports increased by 7% as Production line gone up

Adviser to Prime Minister on Commerce Abdul Razak Dawood says country's exports have increased by seven percent as production line has gone up despite difficult environment.

Talking to Chairman Faisalabad Industrial Estate Development and Management Company, Mian Kashif Ashfaq in Lahore on Tuesday, he said the trade gap is narrowing down as exports are showing steadying trajectory while imports have reduced by four billion dollars. Razak Dawood said overall current account deficit has also improved.

He said in term of quantity, the exports of garments went up by 29 percent, cement 25 percent, basmati rice 21 percent and footwear 26 percent in the current fiscal year. He said the situation on economic front is not as bad as being portrayed by some quarters. The Adviser said the government has provided subsidy to export-oriented sector on electricity and gas and it would be continued in coming year.

WB commits $465m for two projects

World Bank is committing $465 million through two projects to support higher education in Pakistan and expand sustainable electricity trade between Central Asia and South Asia.

"The two projects support Pakistan's long-term vision for building high quality talent and promote the creation of a regional energy market to boost economic prospects for millions of Pakistanis." said Illango Patchamuthu, World Bank Country Director for Pakistan. "Both projects form part of the priority areas identified in Pakistan@100: Shaping the Future, a flagship initiative that identifies frontier interventions for Pakistan to become an upper middle-income country by 2047."

The $400 million Higher Education Development in Pakistan Project will strengthen tertiary education to produce skilled, innovative and enterprising graduates. It will strengthen partnerships with industry for strategic research and develop data-driven governance of tertiary education. "The project will also support the improvement of teaching and learning at the affiliated college level for improved mid-level skills and employability of graduates," said Tazeen Fasih, Lead Economist, World Bank. The project supports the Higher Education Commission of Pakistan's Vision 2025 program, developing tertiary education as part of the Government of Pakistan's aim to become an upper-middle income country.

The Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000) will enable sustainable electricity trade between Afghanistan, Kyrgyz Republic, Pakistan and Tajikistan. The project will use $65 million in additional financing to complete Pakistan's infrastructure part of the CASA-1000 project. It will help meet the growing energy demand in Afghanistan and Pakistan, by transferring surplus summer hydro power from the Kyrgyz Republic and Tajikistan. "CASA-1000 will also improve livelihoods for people living along the energy corridor, sharing the prosperity associated with the project." said Fowzia Hassan, Senior Energy Specialist, World Bank. The International Development Association, the concessional financing arm of the World Bank, is funding both projects. While IDA supports CASA-1000's additional financing, the ongoing project is co-financed with the Islamic Development Bank, USAID, European Bank for Reconstruction and Development, European Investment Bank, and UK Department for International Development.

Regulatory Watch

SBP allows banks to deal in foreign currency with public

The State Bank of Pakistan (SBP) has allowed banks, all of their branches, to deal in foreign currencies with public across the country. The central bank in a circular amended chapter of Foreign Exchange Manual providing details about the currency business while assigning the role of exchange companies to banks. The banks were earlier, not allowed to sell or buy foreign currencies directly from public except for those having their own exchange companies. SBP circular said that all incoming persons whether Pakistani or foreign national can bring with them without any limit foreign currencies and other instruments against the submission of a declaration to the customs authorities on amount exceeding $10,000 or equivalent. The banks have also been asked to ensure availability of foreign currencies to sell it to the public. It is the responsibility of authorized dealers to ensure adequate foreign currency is available with their authorized branches at all times for meeting the requirements of their customers. SBP circular also said that the dealers may sell foreign currency notes to persons proceeding abroad within the amount of foreign exchange allowed through special permission by SBP or under the authority delegated to them.

SBP raises interest rate to 13.25% in new monetary policy

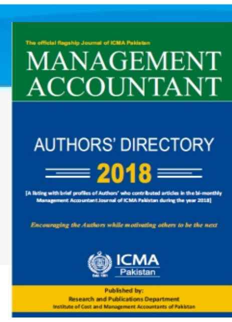
The State Bank of Pakistan (SBP) has announced monetary policy for next two months and increased the interest rate by 100 basis points to 13.25%. Inflation rate is expected to remain at 11% to 12 %. Previously the interest rate was 12.25% that has been increased by 1% in current monetary policy whereas interest rate has been increased by 5.75 % since May 2018. On the other hand, the inflation rate was recorded 8.9% in June 2019. According to the Governor SBP, Mr. Reza Baqir, the new policy is made in line with new tax reforms, adding that the inflation would reduce in second half of current fiscal year. The governor said that the central bank would consider revising down the interest rate if demand softened more, and inflation eased. He said the rate hike will benefit people who have parked savings in saving accounts at banks and/or in national saving schemes.

Management Accounting Terms

Activity output measure	The number of times an activity is performed. It is the quantifiable measure of the output.
Budget administration	The procedures used to prepare a budge, secure its approval, and disseminate it to the peoples who need to know its contents.
Common fixed expenses	Fixed expenses that cannot be directly traced to individual segments and that are unaffected by the elimination of any one segment.
Direct labor budget	A budget showing the total direct labor hours needed and the associated cost for the number of units in the production budget.
Expected activity capacity	Expected activity output for the coming year.
Fixed cost	Costs that, in total, are constant within the relevant range as the activity output varies.
Gainsharing	Providing cash incentives for a company's entire workforce that are keyed to quality and productivity gains.
Hidden quality costs	Opportunity costs resulting from poor quality.
Indirect-labor budget	A schedule showing the amount and cost of indirect labor to be used during a budget period.
Just-In-Time (JIT) purchasing	A purchasing method that requires suppliers to deliver parts and materials just in time to be used in production.
Keep-or-drop decisions	Relevant costing analyses that focus on keeping or dropping a segment of business.
Life cycle costs	All costs those are associated with the product for its entire life cycle.
Marginal revenue curve	A graph of the relationship between the change in total revenue and the quantity sold.
Non-discounting models	Capital investment models that identify criteria for accepting or rejecting projects without considering the time value of money.
Operation costing	A hybrid costing method that assigns materials cost to a product using a job-order approach and assigns conversion costs using a process approach.
Post-purchase costs	The costs of using, maintaining, and disposing of the product.
Quality standards	The quantity of input allowed per unit of output.
Revenue center	A segment of the business that is evaluated on the basis of sales.
Segment reporting	The preparation of financial performance reports for each segment of importance within a firm.
Total cost curve	Graphs the relationship between total cost and total quantity produced and sold.
Unused capacity variance	The difference between acquired capacity (practical capacity) and actual capacity.
Vendor Kanbans	Cards or markers that signal to a supplier the quantity of materials that need to be delivered and the time of delivery.
What-if analysis	The "what if" process of altering certain key variables to assess the effect on the original outcome.
Zero based budgeting	An alternative approach to budgeting in which the prior year's budgeted level is not taken for granted. Instead, the existing operations are analyzed, and continuance of the activity or operation must be justified on the basis of its need or usefulness to the organization.

ICMA Pakistan
Estd. 1951

Launching of MA Journal 'Authors' Directory 2018'



Dear Members,

I am delighted to inform our members that on the historic occasion of 69th Management Accountants Day celebrated on 23rd May 2019, the President ICMA Pakistan, Mr. Zia ul Mustafa, has officially launched the 'Management Accountant Authors' Directory 2018' at Lahore. Both the Foundation day and Launching ceremonies were attended by over 300 members who greatly appreciated this initiative of R&P Committee.

The first-ever edition of the 'Authors' Directory-2018' provides a listing along with brief profiles of all the authors who contributed articles in the six issues of MA Journal published during the year 2018. The Authors' Directory will be published annually.

The Directory is available on link: **https://www.icmap.com.pk/downloads/MAJ_AuthorsDirectory_2018.pdf**

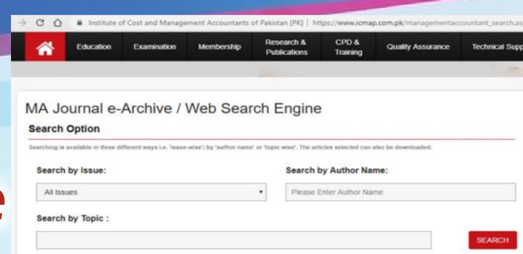
I would like to acknowledge the members of Research and Publications Committee as well as the team of Research and Publications Directorate on this historical accomplishment. I hope that the members will appreciate and acknowledge this initiative.

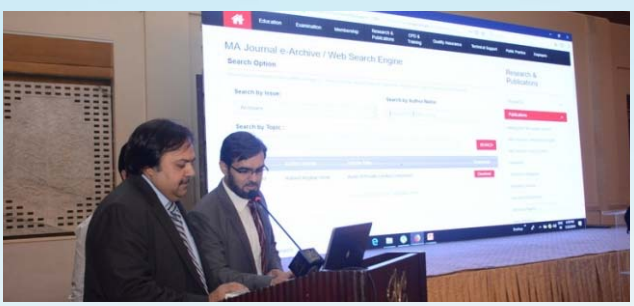
Regards,

Muhammad Yasin, FCMA

ICMA Pakistan
Estd. 1951

Launching of MA Journal e-Archive and Search Engine





Dear Members,

It gives me immense pleasure to inform you that a landmark project of the Research and Publications Committee viz. MA Journal e-Archive and Web Search Engine has been officially launched by Mr. Zia ul Mustafa, President ICMA Pakistan on 23rd May, 2019 at Lahore, on the momentous occasion of the 69th Management Accountants Day. More than 300 members attended the foundation day and launching ceremonies and appreciated this remarkable initiative of the R&P Committee of the Institute.

By launching MAJ search engine, we are making a history and creating a valuable repository of articles contributed by our members and non-members in the official journal of Institute during the last 57 years [i.e. March 1961 till Mar-Apr 2019 issue] that would enable our members and other readers to search journal archives in three ways i.e. 'issue-wise'; 'topic wise' or by 'author name'; as well as view and download any article. The MAJ Search Engine can be accessed on link: **https://www.icmap.com.pk/managementaccountant_search.aspx**

I would like to acknowledge the members of Research and Publications Committee as well as the team of Research and Publications Directorate on this historical accomplishment. I hope that the members will appreciate and acknowledge this initiative.

Regards,

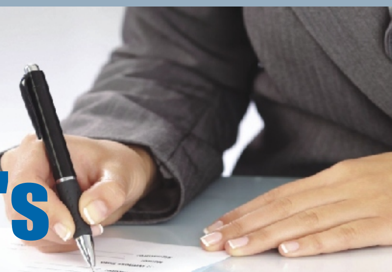
Muhammad Yasin, FCMA
Chairman, Research and Publications Committee

Letter to the Editor

Dear Mr. Muhammad Yasin

I have been studying regularly Management Accountant Journal, struggle of your team is contributing a lot in the life of professionals. MAJ is a great source of information and a unique tool to reflect the current market situation.

Anus Maqbool, A-6495



Reader's Comments

We believe that the readers are the best judge to highlight the areas where improvement in 'Management Accountant Journal' can be made. The Research and Publications Committee invites your valuable comments and suggestions on the editorial, articles and other contents of the Journal. These comments/suggestions will be published in the Journal on a regular basis.

The Committee reserves the right of editing the comments and suggestions.

The intellectual and research based inputs may be sent on email: **rp@icmap.com.pk**

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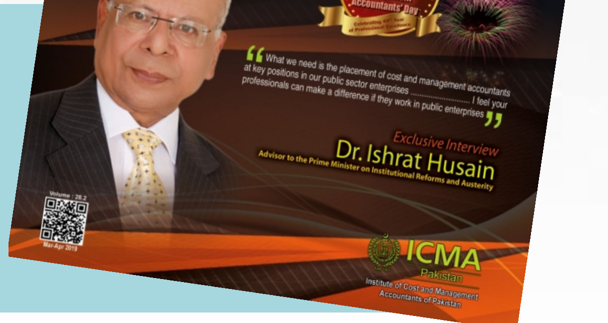

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Question No. 2

(a) & (b) Recalculation of Profit and Redrafting of Statement of Financial Position:

In this question, examinees were required to prepare a statement of recalculation of profit and redraft the statement of financial position of Alpha Limited. Most of the examinees failed to complete the answer and the performance remained unsatisfactory. However, following are the common mistakes committed by majority of the examinees:

- While making adjustment of fraud detection, examinees did not consider the matching principle and they ignored the period to which the fraud was related.
- In the recalculation of Alpha Limited's profit for the year opening retained earning balance was ignored by most of the examinees.
- Misunderstanding of value of building on which depreciation was to be calculated.
- Fire loss was occurred on July 01, 2018 but few examinees accounted the value in the year ended June 30, 2018.

Question No. 3

(a) Financial Assets and Financial Liabilities:

In this part, examinees were asked to explain 'financial assets' and 'financial liabilities'. Overall, below average performance was observed in this part as most of the examinees could not explain these terms and the reason might be the lack of interest of examinees in the theoretical part of the syllabus.

(b) Classification of Assets and Liabilities:

In this part, examinees were required to classify the items into 'financial assets', 'financial liabilities' or 'none'. Majority of the examinees could not reckon the items correctly due to their lack of understanding as a result they lost precious marks.

(c) & (d) Statement of Cash Flows:

In these parts of question, examinees were required to explain the 'limitations of statement of cash flows' and to prepare 'cash flows from operating activities'. Mostly, examinees performed well in this question, while few could not make correct adjustment of working capital.

Question No. 4

(a) Calculation of Depreciation and Book Value of Asset:

In this part, examinees were asked to calculate the depreciation charge and the book value of the asset. This part was well attempted by maximum examinees. It was observed that examinees had a clear understanding of this topic, therefore, they succeeded to score good marks.

(b) Conditions for Changing Accounting Policy:

This part tested the theoretical knowledge of examinees with respect to IAS-8, "Accounting Policies, Changes in Accounting Estimates and Errors" and they were asked to write the conditions for changing the accounting policy. Overall, below average performance was observed in this part and almost all of the examinees could not state the conditions. It was quite clear that examinees had lack of understanding of conceptual features in this topic.

(c) Classification of Items into Accounting Policies and Accounting Estimates:

This part was based on classification of items into accounting policies and accounting estimates. Majority of the examinees performed well in this part and secured good marks.

Question No. 5

(a) Recognition Yardstick for Intangible Assets:

This part was based on discussing the recognition yardstick for intangible assets arising from research and development work. This part was worst performed by majority of the examinees. The reason observed that there was a lack of interest of examinees in the theoretical part of the syllabus, which caused them to lose considerable marks.

(b) IFRS-15, Revenue from Contracts with Customers:

This part examined the knowledge of IFRS-15, "Revenue from Contracts with Customers". Majority of the examinees did not calculate the profit on the basis of work certified. However, overall performance remained unsatisfactory and only few examinees could perform well in this part.

Question No. 6

(a) IAS-12, Income Taxes:

This part was based on application of IAS-12, "Income Taxes", to calculate the deferred tax liability. Majority of the examinees did not make correct calculation of deferred tax liability due to which performance remained below average in this requirement.

(b) & (c) IASB's Conceptual Framework:

These parts required examinees to briefly describe the objectives of general purpose financial reporting, going concern and accrual basis as per IASB's Conceptual Framework. Most of the examinees were found weak in theses areas as they could not define the terms accordingly and their performance remained worst.

–x–

Question No. 2

Flexible Budgeting:

This question required examinees to prepare flexible budget for different levels of direct labor hours, so that management could make decisions accordingly. Almost all examinees attempted this question and showed good grip on this topic. However, following common shortcomings were observed:

- Few examinees were able to get full marks, showing complete workings.
- Most of the examinees failed to secure good marks because they did not show complete working while many of them did not segregate total variable and total fixed cost, which is an important factor for the management for better decision-making.
- Some examinees failed to understand the question and selected only one level of direct labor hours and prepared budget for that level only. They did not adjust with changes in activity.
- They consumed time in lengthy calculations and inappropriate formatting.

It is advisable that they should practice more and work on improving the presentation of the solution.

Question No. 3

Variance Analysis:

The examinees were required to show their understanding of variance analysis, using contribution margin approach and through reverse engineering/ working. Overall performance in this question was not up to the mark, as many examinees could not attempt it completely. However, following part-wise mistakes were observed during assessment:

(a) Actual Sales Units for each product:

This part required examinees to calculate actual sales units for each product. Majority of the examinees attempted this part correctly. However, some examinees were not able to understand the requirement and got confused how to use given data i.e. favorable and unfavorable volume variance, budgeted units sold and contribution margin to do reverse calculation. One common mistake committed by the majority examinees was not showing the total sales units, which was useful information to secure marks. Although, this part was an easy marks scoring one but due to lack of preparation, examinees scored average marks.

(b) Variance Calculation for each Product:

This part was further divided into three sub-parts requiring examinees for three different variance analyses discussed separately:

(i) Sales Mix Variance:

Overall performance in this part was unsatisfactory. Majority examinees failed to calculate the sales mix variance for each product individually. The common mistake in this part was that examinees were unable to differentiate favorable and unfavorable variances. Most of the examinees failed to apply the formula for selecting the correct values and forgot to calculate total sales mix variance and lost worthy marks. Examinees were failed to allocate percentage of budgeted units for calculating actual quantity standard mix.

(ii) Sales Quantity Variance:

Since the calculation was based on sub-part **(i)** above. So, majority of the examinees failed to solve this part as well. However, common mistakes in this sub-part were:

- Some examinees forgot to mention whether it was favorable or unfavorable variance or some of them assigned it incorrectly.
- Most of the examinees did not calculate the total sales quantity variance and applied the formula.

(iii) Fixed Overhead Spending Variance:

This sub-part was attempted by few examinees and those who did were unable to solve it correctly and applied lengthy methods and irrelevant calculations. Overall, it was not attempted up to the standard.

(c) Underlying Reasons of unlikely Results of Total Sales Mix and Quantity Variance:

In this part, examinees were required to give reasons for unlikely results of total sales mix and quantity variances. Most of the examinees did not attempt this part while others, who attempted were not specific to the topic. They gave vague, lengthy and irrelevant answers, which showed lack of understanding and comprehension of examinees of the topic.

The examinees are required to improve their knowledge about variance analysis, using contribution margin approach and practice more to calculate missing figures by reverse working and develop understanding of the standard and actual quantity mix.

Question No. 4

Capital Budgeting:

This question was divided into three parts and most of the examinees attempted this question and secured good marks. Examinees showed good understanding of the capital budgeting. However, following were the part-wise common mistakes committed by the examinees:

(a) Decision on Machine Replacement:

This part of the question required financial evaluation of two machines. Nevertheless, following shortcomings were observed:

- Some examinees were unable to calculate incremental cash flows while most of the examinees used lengthy process/ methods to calculate incremental cash flows of both machines and wasted their time.
- Most of the examinees showed lack of grip in this part instead using present value (PV) factor for annuity method for discounting, they calculated the PVs of each year, using PV interest factor for each year.
- Some examinees ignored dismantling and removal cost, which leaded them in calculating wrong incremental cash out flows.
- Some examinees confused part **(a)** with part **(b)** of the question and considered as if the Machine-R has not been purchased which lead them in wrong calculations.

(b) Selection of Machine-R or Machine-S:

This part of the question was well attempted by most of the examinees and they secured good marks. However, some of the examinees infused part **(a)** with part (b) together again for value ascertainment that resulted in wrong calculations as to the initial cost of asset. While many of the examinees used wrong tool of equivalent annual cost (EAC) to evaluate the projects showing weak understanding of application of appraisal techniques.

(c) Net Present Value:

This part was well attempted; however, some examinees elaborated it too much and wasted their time by showing formulas and further elaborating the formula.

The examinees showed lack understanding of the requirements. They need to give some time for reading and understanding the question before solving it to get to know what actually is required and which technique is to be used.

Question No. 5

Limiting Factor (Make or Buy):

(a) Make or Buy Decision of New Part with variation in units from 20,000 units to 15,000 units:

In this question, examinees were required to show comparative analysis of two options and advise the management which option would be more economical for the company either to buy from outside or make the new parts in-house at different required levels. This question had two parts and also a good marks scoring question. Majority of the examinees attempted this question and scored above average marks. However, following common mistakes were noticed:

- Most of the examinees were not able to score complete marks due to some common errors.
- Some examinees did not show complete workings of total cost and per unit cost.
- Some examinees ignored fixed cost which were to be included as it was a relevant cost, while others did not able to calculate the correct variable overheads leading to wrong answer.
- Some examinees forgot to show comparison between cost of making and cost of buying and lost marginal easy scoring marks.
- At the end of the question, some examinees forgot to give their opinion whether it is economical for the company to buy or make new parts.

The examinees should show complete analysis with each step/ working/ supporting figure to secure good marks.

Question No. 6

Limiting Factor (Make or Buy):

In this question, examinees were required to calculate contribution per labor hour for each product and determine minimum price of processor which could be acceptable for the company for one time order. This question was not well attempted by the examinees and they showed lack of preparation of the subject. This question was further divided into two parts. Examinees were able to attempt part **(a)** and secured marks but they showed lack of understanding and preparation in part **(b)** of the question where they were not able to score marks.

(a) Contribution per Labor Hour and Ranking of Products:

In this part, examinees were required to calculate contribution per labor hour for each of product and rank them accordingly. Most of the examinees attempted this part and secured above average marks. Some examinees did very basic mistakes in this part either in subtracting variable cost or multiplying contribution margin with required labour hours, which led them to miscalculations.

(b) Minimum Price of Processor:

Part **(b)** had two sub-parts. Examinees tried to attempt these sub-parts but majority of them were not able to calculate correct minimum per unit cost for the additional order of processors. They were even not able to allocate hours to each product from the available hours i.e. 8,200 and 12,000.

(i) Minimum Price of Processor at 8,200 Hours:

In part this sub-part, examinees were not able to allocate required hours for each product. They were also not able to calculate variable cost of processor. Almost all the examinees did not calculate the opportunity cost, which showed their lack of preparation and understanding of the subject. Examinees wasted their time in calculating irrelevant figures which were not required.

(ii) Minimum Price of Processor at 12,000 Hours:

This sub-part was not attempted by most of the examinees and those who attempted could not get it right. Most of the examinees even failed to get average marks in this sub-part of the question. However, following were the observations in this sub-part:

- Examinees were not able to calculate the required hours to meet maximum demand, balance hours and how many processors can be produced with those available hours.
- The examinees did not calculate variable cost not opportunity cost and showed poor understanding of the subject.
- However, examinees who attempted the question allocating hours, subject to ranking, were also awarded with considerable marks.

Question No. 7

Just-in-Time (JIT) Arrangement:

This proved to be the most poorly attempted question. Majority of the examinees secured below average marks. Only bits and pieces of some correct calculations resulted in few marks in this question. Although, this question was divided into two parts. Few examinees attempted part **(a)** while most of them tried attempting part **(b)**. Below is the analysis of both parts:

(a) Improvement in Profit after Tax in First Trading Year after Entering into JIT Arrangement:

In this part, examinees were required o calculate the impact of JIT on profit before tax. Most of the examinees left this part. However, few of them were able to calculate some figures and shown some workings but could not present in a proper way. They were able to show the working of equipment interest cost, depreciation cost and original value of annual sales or increase in sales value but were unable to calculate rest of the values and could not get to the net profit. Almost no one could calculate:

- The value of receivables based on sales volume and credit terms
- Annual interest saving from reduction in receivables
- Amount of expected penalty

(b) Additional Benefits RMCL of JIT Arrangement:

This part was also an easy scoring question, but examinees failed to score good marks because most of them attempted it at very last moment and could not gave much time to this part. Most of the examinees were not able to relate it with part **(a)** of the question to explain additional benefits of JIT arrangement but mentioned general benefits. Time constraint could be one factor to hinder examinees in attempting this part appropriately.

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Question No. 2

(a) (i) Undertaking:

In this part, examinees were required to define undertaking. It was observed that almost every examinee attempted this part but majority of them failed to answer accurately and correctly. Most of the examinees wrote irrelevant general statement instead to give investment conditions.

(ii) Dispose of Undertaking:

In this part, examinees were required to take consent of the general meeting in additional of approval of board. Overall, an average performance was observed.

(iii) Conditions in which a Company is not entitled to Dispose of Undertaking:

In this part, examinees were required to provide conditions for dispose of undertaking, which results in or may lead to closure of business operation or winding up of the company. Although, nearly all examinees attempted this part of the question but majority failed to answer and were not aware about viable alternate business plan.

(b) (i) & (ii) Mode of Forming Company:

This part required examinees to explain the mode of forming company as described under section 14 of the Companies Act, 2017. Majority of the examinees attempted and performed well by giving right answer according to mode of forming company and forms of companies with respect to liabilities. Few examinees were not able to understand and mixed both sub-parts of the question.

(c) Quorum of General Meeting and Board Meeting:

In this part, examinees were required to provide quorum of general meeting and board meeting in the case of public listed company, in the case of any other company having share capital and in the case of company not having share capital. Overall, average performance was observed in this part. It was also observed that few examinees did not know quorum of general meeting and board meeting and wrote that quorum policy is mentioned in Article of Association and Memorandum of Association.

Question No. 3

(a) Order(s) of the Court:

Examinees were required to explain the order(s) the Court may pass with respect to winding up of the company under section 308 of the Companies Act, 2017 on receipt of the petition under section 304 of the Act. Overall, poor performance was observed in this part. It was observed that most of the examinees used irrelevant explanation or did guesswork. The question was answered incompletely by many of the examinees, while some were able to write only one point as appointment of Provision Manager for paying their liabilities.

(b) (i) & (ii) Shariah Compliant Companies and Shariah Compliant Securities:

In this part, examinees were required to explain who can claim as Shariah complaint company and Shariah compliant security. Overall, poor performance was observed in these parts. Most of the examinees wrote irrelevant explanation without understating the requirement.

(c) (i) Responsibility of Chief Financial Officer (CFO):

In this part, examinees were asked to explain the responsibility of Chief Financial Officer (CFO) to furnish his particular to the company. Overall, poor performance was observed in this sub-part. Majority of the examinees wrote irrelevant answers such as, preparation of income statement, balance sheet, statement of cash flow and report to Director. Few examinees correctly answered that CFO shall furnish his particulars to the company within 10 days of his appointment. However, some of them wrote 7 days and 15 days instead of 10 days.

(ii) Responsibility of Company:

In this part, examinees were asked to explain the responsibility of the company. Overall, poor performance was also observed in this sub-part. Only few examinees correctly answered that company shall, within 15 days from of date of appointment, file with the Registrar a return on the specified form. However, few examinees wrote 7 days and 10 days instead of 15 days.

(iii) Request for Inspection of Register:

In this requirement, examinees were asked to explain the information that must be contained in the request for inspection of Register. Most of the examinees did not explain the request in the case of individual or in the case of company. Only few examinees correctly answered the question.

Question No. 4

(a) (i) & (ii) Re-Appointment of Independent Director:

In these sub-parts, examinees were required to explain the provision for re-appointment of independent director in the case of listed company and in the case of a public sector company. Most of the examinees attempted these sub-parts and average performance was observed. Few examinees did not explain true conditions for re-appointment of independent director in both cases.

(iii) Requirement of Independent Directors of Listed Company:

In this part, examinees were asked to explain the number of independent directors to be appointed by the company in the light of Regulation 6 of the Listed Company (Code of Corporate Governance) Regulations, 2017. Majority of the examinees did not know the conditions for appointment of independent director. Only few examinees were able to explain that company does not comply with the requirement of number of independent directors of the regulation 6 of the Listed Company (Code of Corporate Governance) Regulations, 2017. And they also wrote correct answers with conditions.

(b) Facilities to Minority Shareholder:

In this part, examinees were asked to explain the facilities which shall be provided to a minority shareholder to facilitate him to contest in election of director of the company. Overall, poor performance was observed and guesswork answers were noticed, which showed that the examinees were unaware about this topic.

(c) Procedure for Public Offer of Securities:

In this part, examinees were asked to discuss the procedure for public offer of securities other than Government securities. It was quite astonishing that most of the examinees did not know about the procedure. However, following irrelevant different answers to this part were observed:

- Procedure is mentioned in the Article of Association or Memorandum of Association.
- Approval is required in general meeting or board meeting.
- Advertisement in some newspaper in English and Urdu for securities offer to the public.

Question No. 5

(a) (i) Procedure to Close the Register:

In this sub-part, examinees were asked to explain the procedure required to close the register in the light of Rule 25 (power to close the register) of Modaraba Companies and Modaraba Rules, 1981. Overall, average performance was observed in this sub-part.

(ii) Time Limit to Close the Register:

In this sub-part, examinees were required to provide time limit to close the register in a year and at any one time. Only few examinees were able to answer correctly. It was observed that most of the examinees did not understand the requirement. Majority wrote 30 days in each year and 7 days at any time instead of 45 days in each year and not exceeding 15 days at any one time.

(b) (i) (ii) & (iii) Non-Banking Finance Companies (NBFC):

In these sub-parts of the question, examinees were required to explain the limit of aggregate liabilities excluding contingent liabilities and security deposits, liabilities which shall not constitute contingent liabilities and requirement with respect to creation of reserve fund. Overall, very poor performance was observed. Only few examinees were able to write correct answers and secured partial marks. It was also observed that most of the examinees did not have command on Non-Banking Finance Companies (NBFC) and Notified Entities Regulation, 2008.

Question No. 6

(a) Small and Medium Enterprises (SME):

Very disappointed performance was observed in this part of the question, which required examinees to define the market maker and explain the functions of market maker of Small and Medium Enterprises (SME). Only few examinees were able to attempt this part. It was also observed that examines did not know the function of market maker and they just wrote irrelevant general explanation.

(b) Code of Ethics issued by ICMA Pakistan:

In this part, examinees were asked to write the importance of code of ethics and explain the code of ethics issued by ICMA Pakistan. Majority of the examinees well attempted this part. Few examinees wrote only elements and did not define the importance of code of ethic.

Question No. 7

(a) (i) Use of Logins:

Examinees were required to explain the terms of use of Securities and Exchange Commission of Pakistan (SECP) e-Services for information security related to 'Use of logins' in this sub-part. Majority of the examinees well attempted this part but few of them wrote only one to two points properly.

(ii) Challan Form:

In this sub-part of the question, examinees were asked to describe the procedure to get Challan Form for online filing in e-Services. Overall, this was well attempted by most of the examinees. However, few examinees did not understand the requirement and gave irrelevant statement.

(b) Notice of Annual General Meeting (AGM):

In this part, examinees were required to draft a notice of Annual General Meeting (AGM) including all ordinary businesses as described under section 134(2) of the Companies Act, 2017. Most of the examinees well attempted this part. It was also observed that other requirement related to the notes to conduct of shareholders and liability for undesired activities of shareholders under section 215 of the Act was not properly written by majority of the examinees.

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ADVANCED FINANCIAL ACCOUNTING & CORPORATE REPORTING – STRATEGIC LEVEL-1 S1

Question No. 1

(a) Consolidated Statement of Profit or Loss and Other Comprehensive Income:

In this part of the question, examinees were asked to prepare consolidated statement of profit or loss and other comprehensive income of a company Parent Limited for the year ended June 30, 2018. Examinees' performances were average in this part. Some of them failed to take 9-month of impact of revenue, cost of sales etc. in the said statement since they wrongly took whole year's amounts. Likewise, a number of examinees failed to work out intra-group average monthly sales and intra-group mark-up on cost for 9 months. Instead, they took monthly figure in their answer scripts. The value of Non-Controlling Interests (NCI) was also inaccurately calculated without taking into account the impact of 9-month period since acquisition by many examinees. It is suggested that examinees should consider precisely the period of acquisition while preparing consolidated statement of profit or loss and other comprehensive income.

(b) Consolidated Statement of Financial Position:

In this part of the question, examinees were required to prepare consolidated statement of financial position of Parent Limited. Although, the performances of the examinees were above average, still many of them failed to consider the impact of re-valuation of the property at acquisition. Consequently, they also failed to consider the impact of re-valued property's post acquisition depreciation. Further, the majority of the examinees failed to accurately work out the value of goodwill due to multiple reasons. Among them, inaccurate calculations of deferred consideration and NCI at acquisition were the most common reasons. Similarly, while determining the value of NCI, post-acquisition re-valuation of property and/ or impairment of goodwill were missed. In similar way, in the calculation of group retained earnings, the amounts of post-acquisition profit of the subsidiary, impairment of goodwill, un-realized profits were ignored by many examinees, which resulted in wrong calculation of the group retained earnings.

Question No. 2

Share-based Payment:

This question required examinees to identify the annual charges to the statement of profit or loss for 10 years as per IFRS-2, Share Based Payment. Examinees performed poorly in this question as only a very few examinees were able to get good marks. Firstly, many examinees failed to understand the requirement of the question and produced un-required details. While determining the amounts of expense charged to profit or loss for the first three years, the examinees did not take into account the impact of employees who had left the company or were expected to leave it in the first three years. For years 4 to 10, they did not consider the impact of preceding years' share prices. All of the aforesaid common errors contributed to their poor performances.

Question No. 3

Consolidated Statement of Cash Flows:

The requirement of this question was to prepare consolidated statement of cash flows as per IAS-7, "Statement of Cash Flows". Many examinees attempted this question successfully showing good professional skills. It was a marks-scoring question but the majority of the examinees failed to score maximum marks. Following mistakes were observed during marking of scripts:

- Many examinees failed to accurately workout the 'gain' on sale of non-current asset as they could not differentiate between the carrying value of the plant that was disposed of and its sale value.
- While calculating the interest paid, they failed to take impact of finance cost attributable to the discount, hence, miscalculated the amount of interest paid.
- Some of them could not work out the correct amounts of dividend from investment in associate, dividend paid to NCI and income tax paid.

Question No. 4

Basic and Diluted Earnings per Share (EPS):

It was a very straight-forward question where examinees were just required to work out Basic and Diluted EPS for two years. However, many examinees could not wholly attempt this question due to following mistakes committed by them:

- Many examinees failed to subtract the amount of dividend on 10% cumulative irredeemable preferences shares from the profit after tax in order to arrive at the figure of 'earnings' that was required for the calculation of Basic EPS.
- For the calculation of Diluted EPS, a number of examinees were not conversant with the required steps to be followed. They did not add up interest on the convertible debt and subtracted the income tax on this interest from the amount of 'earnings' as calculated before to arrive at the correct figure of 'earnings' to be used for calculating Diluted EPS.
- While calculating incremental shares for the year 2018, many examinees could not compute correct number of shares. For the year 2017, performance was even worse as the majority of the examinees wrongly took the same figure of the incremental shares for the year 2017, which was computed for the year 2018. They should have taken 75% of year 2018 incremental shares instead since 8% debt was outstanding only for 9 months in year 2017.

Due to aforesaid reasons, examinees' performances were not upto the mark.

Question No. 5

(a) (i) Difference between IFRS and US GAAP:

Only a few examinees were able to specifically mention the main difference that US GAAP is rules-based and on the other hand IFRS is principles-based. Majority of the examinees could not mention all the differences.

(ii) Social Responsibility as Practiced in Pakistan:

Examinees responded poorly to this sub-part. Majority of the examinees tried to explain the corporate social responsibility in its full. Few examinees merely mentioned the requirements of Securities and Exchange Commission of Pakistan (SECP) for corporate social responsibility.

(iii) Elements of Management Commentary:

This sub-part was attempted well by many examinees. However, some examinees were still confused about disclosure requirements of corporate reporting and explained their answers erroneously.

(b) Exchange Gains/ (Losses) on Carrying Values of (i) Investment and (ii) Loan:

Only an average number of examinees were able to score good marks in this question. Rest of the examinees committed different mistakes in their answers. Some examinees erroneously divided the exchange rates with foreign currency. On the other hand, some other examinees subtracted converted value of Dirham from converted value of USD and vice versa.

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Question No. 1

(a) Procedures which Engagement Quality Control Reviewer shall Perform:

In the context of Assurance Engagement other than audits or reviews of historical financial information, examinees were asked to explain the procedures which engagement quality control reviewer shall perform in accordance with International Standard on Assurance Engagement (ISAE) 3000 (Revised) in this part of question. Examinees were required to explain the objective evaluation of the significant judgments made by the engagement team with conclusion for formulating assurance report. Almost all the examinees attempted this question but performance was not satisfactory as examinees did not focus on the requirement of the question and provided irrelevant details.

(b) Pre-conditions to be considered before accepting Assurance Engagement:

In the context of ISAE, examinees were asked to explain, being audit partner of Zohaib & Co., list down the pre-conditions in accordance with ISAE 3000 (Revised) before accepting Assurance Engagement. Almost all the examinees attempted this part but overall performance was unsatisfactory as examinees were unable to provide the description regarding suitable roles and responsibilities of appropriate parties, appropriateness of subject matter, and suitable criteria in the preparation of subject matter and also ensure that information will be available for the intended users, supportive evidences for conclusion etc. Examinees failed to understand the question and a variety of issues were observed varying from very basic concept to the application of knowledge to offer practical solutions.

Question No. 2

(a) In the context of ISA 210, "Agreeing the Term of Audit Engagements", examinees were asked to explain the following:

(i) Steps to be taken, if the Management or those charged with Governance Impose Limitations on the Scope of Audit:

This sub-part asked examinees to explain the impact, in accordance with ISA 210, in case the management or those charged with governance impose limitations on the scope of auditor's work, in the said scenario in terms of proposed audit engagement the limitation will result in the auditor disclaiming an opinion on the financial statements the auditor should not accept such a limited engagement as an audit engagement unless required by law or regulation to do so. Almost all the examinees attempted this part of question and, overall, performance was found satisfactory.

(ii) Factors Appropriate to Revise the Terms of Audit Engagement or to Remind the Entity of Existing Terms:

This sub-part required examinees to list down the factors which may make appropriate to revise the terms of the audit engagement or to remind the entity of existing terms i.e. any indication that the entity misunderstands the objective and scope of the audit, recent change in senior management, significant change in ownership, change in legal or regulatory requirements etc. Overall response from the examinees was good and they provided the reasonable details.

(b) ISA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements":

In this part, it was required from the examinees to explain the reasons the risk of detecting a material misstatement resulting from management fraud is higher than from employee fraud. This part was conceptual based and overall good performance was observed in this part.

(c) In the context of ISA 240, examinees were required to explain the conditions in which auditor identifies or suspects fraud:

(i) Circumstances an Auditor will Communicate to Management and those charged with Governance:

In this sub-part, examinees were required to explain the circumstances in which auditor will communicate to the management and those charged with governance. However, most of the examinees were unable to provide necessary details and due to this, result remained on average.

(ii) Matters an Auditor shall Communicate with those charged with Governance:

This sub-part required examinees to explain the circumstances in which an auditor will communicate to those charged with governance. Most of the examinees failed to understand the question and a variety of issues were observed varying from very basic concept to the application of knowledge to offer practical solutions. A considerable majority was unable to properly define the required term and due to this result remained below average.

(d) Risk Assessment Procedures:

In the context of ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment", examinees were required to explain the types of risk assessment procedures with appropriate examples. However, only few examinees were able to understand the question and provided desired details. Although, it was a simple question but some of the examinees had not clear concepts about the aforesaid term and discussed inappropriate matters. Due to this, result remained below average.

Question No. 3

(a) Eight Key Controls of Process Flow relating to Sales Process:

This part asked examinees to identify eight key controls of process flow relating to sales process. However, overall performance found satisfactory as most of the examinees had adequate knowledge and explained this part of the question professionally.

(b) Requirements for Qualification of the Head of Internal Audit:

In the context of Regulation 24 (qualification of Internal Auditor) of the Listed Companies (Code of Corporate Governance) Regulations, 2017, examinees were required to explain the eligibility criteria for the appointment as the head of Internal Auditor. However, average performance was observed in this part as examinees were unable to understand the exact requirement and did not perform as was expected. Most of the examinees generally discussed the qualification for the appointment head of Internal Audit.

Question No. 4

(a) Course of Action an Auditor should perform, if Management refuses to allow to send a Confirmation Request:

In the context of ISA 505, "External Confirmations", examinees were required to explain what course of action auditor should perform in case when management refuse to allow auditor to send direct confirmation to verify certain trade debtor's balances. Some examinees understood the concept and explained the term. However, an average response was observed in this part as some examinees did not provide details to inquire the reasons of refusal from management, evaluate the implications of management refusal, perform alternate audit procedures etc.

(b) ISA 520, "Analytical Procedures":

In the context of ISA 520, "Analytical Procedures", examinees were required to explain the designing and performing substantive analytical procedures. Most of the examinees understood the question and provided details near to the requirements that auditor shall determine the suitability of particular substantive analytical procedures, evaluation of the reliability of data etc. However, average performance was observed in this part.

(c) ISA 550, " Related Parties":

In the context of ISA 550, "Related Parties", examinees were required to provide the details of records or documents which may provide information about the related party relationships and transactions i.e. third party confirmations, income tax returns of entity, information provided to regularity authorities, shareholder registers, life insurance policies acquired by entity etc. However, below average performance was observed from the examinees' side as most of them attempted but did not provide adequate details.

(d) Type of Audit Opinion to be Expressed in the Given Scenario:

Being an audit engagement partner of Elegant Textile, auditor concluded that the use of going concern basis of accounting for the preparation of the financial statement is inappropriate so in the context of ISA 570 (Revised), examinees were required to explain what type of audit opinion will express in this scenario. Almost all the examinees attempted the question and good response was observed. It was required from the examinees to mention that the auditor shall express an adverse opinion in said scenario.

Question No. 5

(a) Responsibilities of Group Engagement Team:

In the context of ISA 600, "Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)", examinees were required to provide the details in relation to the group's audit for the audit of financial statements i.e. the group engagement team shall determine materiality for the group financial statements as a whole when establishing the overall group audit strategy, specific circumstances of the group there are particular classes of transactions, account balances or disclosures in the group financial statements for which misstatements of lesser amounts than materiality could be expected to influence the economic decisions, component materiality concept etc. However, it is observed that most of the examinees did not understand the question and overall, poor performance was witnessed as only few examinees were able to provide correct details. While majority of the examinees provided irrelevant and self-produced answers.

(b) In accordance with ISA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements", examinees were required to explain the following:

(i) Particular Jurisdiction for issuing Auditor's Report:

In this sub-part of the question, examinees were required to explain in whose name the auditor's report will be signed and most of the examinees had good understanding and provided relevant information.

(ii) Description of Auditor's Responsibility for the Audit of Financial Statements in Auditor's Report:

The sub-part required examinees to provide the details regarding description of the auditor's responsibility in auditor's report. Examinees performed average in this part and did not provide upto the mark reply as was expected.

(c) Circumstances for expressing Qualified Opinion, Adverse Opinion and Disclaim an Opinion by an Auditor:

In the light of ISA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report", examinees were required to explain the the circumstances when auditor should express Qualified Opinion, Adverse Opinion and Disclaim an Opinion. In this part of the question, response of most of the examinees was considerably acceptable and they provided the necessary details.

(d) Procedures to be performed in accordance with ISA 720:

In the context of ISA 720, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements", examinees were asked to explain the procedures that will be performed, if the other information is altered correctly, if the other information is not corrected after communicating with those charged with the governance, and to take appropriate action considering the auditor's legal rights and obligation. Most of the examinees did not understand the requirement and did not provide the reply as was expected and, hence, performance of examinees was average.

Question No. 6

(a) Particulars to be included in the Cost Auditor's Report to the Directors of the Company:

In this part, examinees were required to list down the particulars, relating to raw material, wages and salaries, stores and spare parts, which are required to be included in the Cost Auditor's Report i.e. in case of raw material, relevant costs to be included both in terms of quantity and value reflecting the actual consumption against the standard. In wages and salaries, total and per unit cost of wages and salaries paid to employees, directors and chief executive. Lastly in stores and spares, expenditure per unit of out on stores, comments on the system of stores accounting for recording receipts, issues and balances both in quantities and values etc. Overall performance of almost all the examinees was considerably satisfactory justifying the requirements of the question.

(b) Substantive Audit Procedures required to be performed to test Factory Overheads:

This part required examinees to describe substantive audit procedures to be adopted to test the Factory Overheads as per the Companies (Audit of Cost Accounts) Rules, 1998. Most of the examinees attempted this part; however, performance was below average. Although, the examinees were required to provide details of inspecting schedule and basis for applied and actual factory overheads for factory overheads etc. Most of the examinees explained the audit program in generalized way but not as specific as required.

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BUSINESS TAXATION – STRATEGIC LEVEL-1 S3

Question No. 1

(a) & (b) Treatment of Unexplained Income or Assets:

In this question, examinees were required to explain the unexplained income or assets, provisions relating to agricultural income and tax treatment under section 111 of the Income Tax Ordinance, 2001. However, poor performance was observed as majority of the examinees could not understand the requirement of this question. Nevertheless, following shortcomings were observed:

- Examinees did not fully cover the situations that come under unexplained income, especially from the business point of view. Majority of them restricted to answer from individual perspective.
- Almost all the examinees were not able to explain the agricultural income in the context of unexplained income. They explained the tax treatment of agriculture income but failed to answer what should be included in unexplained income in case of agriculture receipts.
- It was also observed that examinees also failed to understand that loan being a capital receipt but when transacted in cash it should be treated as deemed income and will be taxed as per the Income Tax Ordinance, 2001.

Question No. 2

Calculation of Taxable Income and Tax Liability:

In this question, examinees were required to calculate the taxable income under normal tax regime (NTR) and final tax regime (FTR) and income tax payable or refundable by/ to Mr. Huang, a Chinese national, for the tax year 2018. Almost all the examinees attempted this question and few examinees performed very well but overall average performance was observed. However, following mistakes were observed in the calculation of taxable income:

- Examinees failed to understand that commercial imports should not be a part of normal taxable income rather it should be treated in (FTR).
- Majority of the examinees were not able to understand that value of shares, in case of employee share option scheme, should be taken at the time when restriction is removed.
- Further, majority of the examinees failed to explain the taxability of foreign and domestic receipts of short-term resident.

Question No. 3

(a) & (b) Income Tax Authorities and Jurisdiction of Income Tax Authorities:

In this question, examinees were required to list down the income tax authorities and their jurisdiction under section 207 and 209 of the Income Tax Ordinance, 2001. As this was a very basic question about structure of tax mechanism and their respective jurisdiction but, surprisingly, performance in this question was very poor. It was observed that, firstly, examinees failed to identify the income tax authorities and also included provincial authorities that was incorrect and, secondly, examinees explained powers of income tax authorities rather than jurisdiction that was actual question.

Question No. 4

(a) & (b) Taxation of an Association of Persons (AOP) and Calculation of Taxable Income and Tax Liability:

In this question, examinees were asked to elaborate the procedure for taxation of association of persons (AOP) and admissibility and inadmissibility of expenses in case of company while calculating taxable income. Majority of the examinees could not perform satisfactorily. In most of the cases, examinees gave explanation about the tax treatment of AOP share while calculating partner taxable income. Further, examinees were also failed to give correct effect of expenses while calculating taxable income of the company, especially, interest paid to branches abroad and allocation of Head Office expenses.

Question No. 5

(a) & (b) Sales Tax Act, 1990:

In this question, examinees were required to calculate the sales tax liability and outline basic definition under the provisions of the Sales Tax Act, 1990. Majority of the examinees performed well in this question. However, few examinees committed following mistakes:

- Inclusion of further tax as part of output tax and apply 90% restriction on that output tax that was conceptually incorrect.
- Failure to identify the time period to become non-active for not filing of withholding tax (WHT) statement and sales tax return. As per law, it was two months and examinees gave no time period or gave one month.
- In few cases, examinees failed to identify that the 'exempted' supplies are mentioned in the Sixth Schedule and 'zero rated' supplies are dealt in the Fifth Schedule.

Question No. 6

(a) & (b) Manufacture and Sales Tax Mode:

In this question, examinees were required to define the terms 'manufacture' and 'sales tax mode' under the Federal Excise Act, 2005. Although, this was a very basic question but in most of the cases, examinees failed to attempt. Majority of the examinees gave general definition of manufacturing instead to give it in the context of the Act. Further, it was also observed that examinees failed to explain the sales tax mode as defined under the Act

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Question No. 1

(a) Calculation of Annual Saving after implementing Just-in-Time (JIT) Inventory System:

In this part of the question, examinees were required to calculate annual saving that would be achieved with the implementation of Just-in-Time (JIT) inventory system. Overall, average performance was observed in this part. However, following shortcomings were observed in most of the examinees' solutions:

- Distribution of variable cost in JIT was not correct.
- Annual saving was not shown by using JIT.
- Changes in variable cost under JIT was not correctly done.
- Variable cost under traditional and JIT system was not properly shown.
- Variable cost charged to production unit was not correct.

(b) Definitions of Techniques of enhancing Long-term Profits of Organizations:

In this part, examinees were required to define 'target costing', 'functional analysis' and 'value analysis'. Most of the examinees did not correctly attempt this part, which showed that theoretical knowledge of examinees is weak, which needs to be focused on seriously.

Question No. 2

Optimum Production Plan:

In this question, examinees were required to work out the optimum production plan for Dawn Limited, using graphical approach. Overall, poor performance was observed in this part. Nevertheless, following common mistakes were observed in most of the replies:

- Contribution of both products was not correctly calculated.
- Optimal production of the product mix was not calculated.
- Quantity use for both product was incorrect.
- Quantity of both material was not calculated as per given ratio.
- Simultaneous equations were wrongly solved.
- Output mix of both products was not taken correctly.
- Incorrect graphical presentation of production line.
- Data of both products was not plotted properly on graph.
- Point of optimal production mix was not shown on graph.
- Maximized profit was not calculated.

Question No. 3

Decision-Making, using Decision Tree:

In this question, examinees were asked to advise Nobel Motors Limited with the help of decision tree, which city should be selected to sell imported cars in Pakistan. Overall, average performance was observed in this part. However, majority of the examinees committed following mistakes:

- Expected profit under given probability was not correctly calculated.
- City-wise expected value of profit was not calculated.
- Value of perfect information was not calculated.
- Expected value of each city having no information was incorrect.

Question No. 4

(a) & (b) Calculation of contribution generated by City Electronics:

In these parts, examinees were required to calculate the contribution generated by City Electronics with or without production constraint in Motor Division and contribution generated by Assembly Division. Most of the examinees attempted this part but following shortcomings were commonly observed:

- Marginal cost and contribution was not correctly calculated.
- Product range was wrongly taken as 250 units and above instead of 0 – 250 units with increment of 50 units.
- Marginal cost of Assembly Division was not taken in the calculation of marginal cost of the division.
- Contribution at optimal level of output and price with production constrain was not calculated.
- Majority of the examinees did not calculate opportunity cost.

(c) General Rule for Transfer Pricing:

In this part of the question, examinees were asked to define the general rule for transfer pricing. However, below average performance remained observed in this part as most of the examinees could not define the general rule for transfer pricing correctly.

Question No. 5

(a) Evaluation of Performance, using Economic Value Addition (EVA) Concept:

In this part, examinees were asked to evaluate the performance of Faisalabad unit of Al-Farooq Textiles Limited, using Economic Value Addition (EVA) concept. Overall, poor performance was observed in this part. While following mistakes were generally committed by majority of the examinees:

- Performance evaluation, using EVA was not correct.
- Weighted average cost of capital (WACC) was not correctly calculated.
- Net operating profit after tax (NOPAT) was not correctly calculated.
- Tax adjustment was wrong.
- Capital employed was not correctly calculated.
- Incorrect provision for doubtful debt.

As a result of the above mistakes (EVA) figure calculated wrongly.

(b) Achievement of Break-even Level of Economic Value Addition (EVA):

In this part, examinees were required to show how the break-even level of EVA can be achieved. Majority of the examinees could not attempt this part as well. While, most of the examinees committed following mistakes:

- Break-even level of EVA was not shown.
- Percentage of required cost of capital was not correctly calculated.

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Question No. 1

Expected Return on Equity (ROE):

In this question, examinees were required to assess the effect of working capital policy on return on equity (ROE) and suggest the appropriate policy based on the calculations. Overall, performance of examinees in this question was outstanding and they were accurately able to calculate the ROE for each of three policies. However, it was observed that few of them were not able to accurately calculate net income due to wrong calculation of interest expense and some examinees calculated return on total assets instead of equity.

Question No. 2

(a) Estimated Equation for Security Market Line (SML):

In this part of the question, examinees were required to estimate the equation for Security Market Line (SML). The risk-free rate of return and systematic risk ($r_M - r_{RF}$) are constant part of equation, whereas, unsystematic risk i.e. β and required rate of return are variable components of the equation. In order to estimate the SML, risk-free rate of return (r_{RF}) and market return (r_M) were required. As, r_{RF} was given in the question, so students were first required to calculate r_M from probability distribution given in question. Most of examinees were able to calculate r_M, but they were unable to estimate the SML instead they calculated return of each individual stock in portfolio. SML is the function of unsystematic risk (β). Required rate of return for any stock can be ascertained by inputting β of that particular stock in estimated SML.

(b) Required Rate of Return for Next Period:

This part was linked with part **(a)** of the question, which required examinees to calculate required rate of return for XYZ Investment Funds/ portfolio by applying the concept of SML. Overall, examinees performed well in this part. However, following common mistakes were observed in their replies:

- Some examinees wrongly calculated the co-efficient Beta (β) of XYZ Investment Funds by using simple average method instead of weighted average method.
- Some of them calculated required rate of return for each stock, whereas, they were required to calculate the required rate of return for whole investment fund.
- Few examinees even associated probability distribution of market return (r_M) with each stock in investment fund, which was independent of any of the stock in investment fund.

Question No. 3

(a) Per Share Market Price:

In this question, examinees were required to apply the theoretical knowledge regarding effect of share purchase on its stock price. Share prices reduced after its repurchase, but how much the price declines it depends upon the volume of share repurchased. Most of the examinees successfully met the requirement of question. While some of them were able to respond with an alternate method i.e. existing market capitalization divided by total number of shares after repurchase.

(b) (i) Effect on Shareholders' Equity Account and Number of Shares Outstanding:

In this sub-part of the question, effect of 20% small-percentage stock dividend on shareholders' equity account was required to be determined by the examinees. The small-percentage stock dividend does not increase or decrease overall stockholders' equity but changes the composition of stockholders' equity. Majority of the examinees attempted this question correctly. However, it was also noted that concept of some examinees was not clear and they wrongly calculated the effect of stock dividend on shareholders' equity.

(ii) Per Share Market Price:

The performance of examinees in this sub-part was average as most of them just described the theoretical concept and stated that the price of stock should reduce after stock dividend but it was asked to calculate the exact price of the stock. It was also observed that some examinees did not have an idea about informational or signalling effect and calculated wrong stock price or wrongly stated that there should not be any effect on stock price.

Question No. 4

(a) Minimum Level of Earnings before Interests and Taxes (EBIT):

In this part, examinees were expected to apply their knowledge regarding the change in capital structure and its effect on profitability. In this connection, revised capital structure was proposed with increased level of debt with additional interest charges and examinees were asked to calculate minimum level of EBIT, which a company must achieve in order to make the revised capital structure profitable. The performance of examinees was satisfactory and they were able to meet the requirement of question. However, it was observed that some examinees wrongly calculated interest expense and total number of shares for revised capital structure.

(b) Decision-Making for Acceptance of Offer:

In this part, examinees were required to advise whether the company should accept the new project. Hence, the decision regarding acceptance of projects was based on net present value (NPV) of the project. Overall, the performance of examinees was up to the mark and most of them were successful in meeting the requirement of question. However, some of the examinees were not able to calculate the cost of capital due to wrong interpretation of debt-to-equity (D/E) ratio. Moreover, while calculating the present value of project's cash flow, majority of the examinees applied growth rate on project cash inflow, whereas, it was mentioned in the question that the given cash flow of Rs.14 million was at the end of the first year.

Question No. 5

(a) Investment Appraisal with Cost-Volume-Profit (CVP) Analysis:

Generally, the examinees were not able to perform well in this part while solving the question and only few of them were able to successfully answer the question. This question was framed to test the application of knowledge regarding capital investment appraisal along with cost-volume-profit (CVP) analysis. Nevertheless, following common mistakes were observed:

- While calculating per unit cost of material, cost of material 'Zee' was calculated on the basis of net realisable value instead replacement cost.
- The fixed part of the cost was included in the factory overhead (FOH) i.e. depreciation was to be excluded while calculating per unit variable cost of FOH.
- Some examinees discounted the cash flows of project by applying cost of equity instead of weighted average cost of capital (WACC).
- Redundancy cost saving was to be considered one time only at the start of the first year, but some examinees considered it for each year.

(b) Viability of Project:

This part required examinees to apply their knowledge regarding CVP analysis, which could also save their time in attempting the question. The performance of examinees, again, in this part of question was below average and they committed same mistakes, which were committed in part **(a)** of the question.

Question No. 6

(a) Calculation of Cost of Assets:

In this part, examinees were required to calculate the cost of assets on the basis of 'replacement cost value', 'realizable value' and 'dividend valuation model'. However, mistakes made by examinees were noted as follows:

- Majority of the examinees performed very well while calculating realisable cost of assets.
- However, while calculating replacement cost of assets, many of them were not able to accurately calculate the replacement cost of accounts receivable.
- While calculating the value of assets, using dividend valuation model and few examinees could not accurately calculate the growth rate of dividend, however, majority of students performed well.

(b) Acceptance of Viable Project on the basis of Profitability Index:

In this part of the question, performance of examinees was outstanding and they were able to identify the project, which the company should accept on the basis of profitability index.

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Question No. 1

Risk Management and Strategic Planning:

This question was based on identification of steps to maintain the top position in the market with regard to following:

(a) Risk Management:

Examinees were asked to briefly describe the steps of risk management and further describe the way, to be followed by the ABC (Pvt.) Limited to maintain its leadership in the market in this part. Most of the examinees had correct concept but they merged part **(a)** and part **(b)** giving an interchangeable answers, thus failing to secure considerable marks pertaining to this part and those who attempted it correctly failed to mention all the steps of the risk management. Instead of describing the same, the answers were given directly with regard to ABC (Pvt.) Limited. Overall, below average marks were secured by majority examinees in this part.

(b) Risk Mitigation Strategies:

In this part, examinees were asked to briefly describe the steps of risk mitigation strategies to be followed by ABC (Pvt.) Limited to maintain its market share. Understanding of the subject matter was reflected in examinees' replies but they confused risk management process flow with risk mitigation techniques. Most of the examinees made mistake by directly inferring to the case, instead of briefly defining the steps of risk mitigation. Lack of demarcation as to the difference between risk management strategies and risk management process was vividly observed during review that formed the reason of marks deduction.

(c) Strategic Planning and Controlling:

In this part, examinees were asked to identify the steps of strategic planning and controlling in the given case. Overall, below average performance of examinees was observed in this part. Most of the examinees made mistake of inferring the case directly, instead of briefly defining the strategic planning and controlling. Examinee's merged the stages of strategic planning rather than defining steps that they must undertake in order to revisit the planning procedures and controls after entrance of new company in the market. Because of entrance of Zanjabeel (Pvt.) Limited in the market, ABC (Pvt.) Limited should review its resources, operation, procedures, performance of employees and other related stakeholders, whether it was focusing on achieving the common goal and objective or not, which examinee's failed to understand and attempted the question. Thus, obtaining average marks in the part.

Question No. 2

(a) Force Field Analysis:

This part was divided into two sub-parts. Although, responses of examinees in this part were satisfactory. However, following is the sub-part wise performance:

(i) Analysis of Internal and External Forces for Change:

This sub-part was very well attempted by majority of the examinees, indicating clear understanding of the subject matter as well as the requirements. They were asked to analyze the internal and external forces for change in the company. Overall, performance of the examinees in this sub-part was above average.

(ii) Causes of Resistance:

A well attempted sub-part by the examinees showing good understanding and comprehension of the question and identification of causes. They were expected to identify the reasons that would possibly evolve as resistance to the prospective changes in the organization and majority of the examinees did it correctly.

(b) Supply Chain Model:

In this part, examinees were asked to discuss the three main themes of supply chain management as described in the 'Supply Chain Model'. Most of the examinees' answers were aligned conveying the gist of the model, while many of them gave the answers exactly as the model suggested. However, it was also observed that some of the examinees failed to attempt the question confusing the concept of value chain primary activities with the model, hence, failed to achieve marks with respect to the content required.

Question No. 3

(a) Environmental Strategies:

This part required examinees to discuss the possible environmental strategies that an organization adopts to relate closely with its environment. Most of the examinees understood the question in its true spirit and were able to answer the question accurately and precisely and, hence, secured good marks. While many of them confused the question with external environmental forces as well as with corporate social responsibility and sustainability that formed the reason for marks deduction in this part. However, overall performance of the examinees was satisfactory.

(b) Management Accountants Roles in Crafting Strategy:

Examinees were asked to discuss the roles of Management Accountants with respect to crafting strategy in this part of the question. Majority of the examinees misunderstood the question and discussed the various general roles of Management Accountants and ultimately secured below average marks. Few of them attempted the part as per the requirement but lacked the content of the answer making it a less scoring part for them.

Question No. 4

Strategy Development and Strategic Options:

(a) Porter's Three Generic Strategies Model:

Examinees, in this part, were asked to apply the Porter's Three Generic Strategies Model to maintain and improve the profitability of Crown Restaurant (CR) in the capacity of Management Consultant. Most of the examinees were able to answer the question as per the requirement but it was observed that the some examinees lacked understanding in proper application of the strategy and fitted the same comprehending the scenario. Many of them lacked in portraying the variants of cost leadership and focus strategy reflecting exact direction of application of strategy. However, examinees maintained the essence of the subject matter scoring average marks in this part.

(b) Organizational Information System:

In this part, examinees were asked that which organizational information system either strategic or operational will help the Crown Restaurant (CR) to adopt most appropriate generic strategy. Most of the examinees failed to understand the requirements of the question and offered suggestions regarding application of information system and implementation level. Many of them generalized the subject matter mentioning the definitions of the levels of strategy exhibiting lack of understanding to the question or the content of the answer requested, thus, secured below average marks.

Question No. 5

Strategy Development and Strategic Options:

(a) E-business Strategy:

In this part of the question, examinees were supposed to prepare a report and advise the company regarding benefits and problems of developing e-business strategy. Most of the examinees attempted the question correctly and secured good marks. They conveyed correct gist of the subject matter staying in the jurisdiction of the requirement asked from the examinees. Overall, performance of the majority examinees was satisfactory.

(b) Web 2.0 Technologies:

Examinees, in this part, posted a weak understanding of the technologies being questioned. The question was simple in formation and directly requiring examinees to bring forward applications of Web 2.0 technologies, which examinees failed to answer. Majority of them did not attempt the part and those who attempted were inappropriate, resulting in low marks in this part.

Question No. 6

(a) Directors' Roles in Changing Dynamics:

This part required examinees to describe the roles of Directors in the strategic management of the organization that has been changed over the period due to change in business dynamics. Most of the examinees' answers were aligned with the requirement but vague understanding of concept was observed in majority replies. The examinees confused the present and changing roles of the Directors. Overall, examinees' performance with respect to this part was remained average.

(b) Enforceability of Business Ethics in an Organization:

Examinees, in this part, were tested with regard to describing the implementation of 'code of ethics' in international business platform. Most of the examinees were unable to justify the answer. They lacked in understanding the fundamentals of ethical principles and enforceability of ethics in an organization. Examinees, those attempted this question, could not perform upto the mark, resulting in below average marks.

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